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Sony invests in a bruised asset
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World Business Newspaper — TUESDAY JUNE 25 1996

Nuclear test ban deal threatened by 'threshold' states

Britain, Russia, China and Pakistan have rejected a plan to begin a comprehensive nuclear test ban even if one or more of eight key countries refused to join. They are insisting that the treaty be ratified by all five declared nuclear weapons states – the US, Russia, Britain, France and China – as well as by India, Pakistan and Israel, the three "threshold" states capable of building nuclear weapons. Page 16; Deadline drawing near, Page 4

Saab Automobile is to get an injection of SKr3.48bn ($524m) from General Motors of the US and Investor, the main arm of the Wallenberg empire, in a refinancing deal that opens the door to an eventual complete takeover by GM. Page 17

Israeli interest rate raised: The Bank of Israel raised the key lending rate by 1.5 percentage points in a message to Benjamin Netanyahu's government that it must tackle economic problems and implement budget cuts. Page 16; Christopher picks up Mideast peace baton, Page 4

Germany lifts hopes of economic upturn: The German economics ministry reported "isolated signs" that pointed to "a gradual stabilisation", raising hopes that the country may be starting to pull out of its economic downturn. Page 2

Few offers for MGM: Only a handful of bidders had expressed interest in the French-owned MGM film, television and distribution group as the deadline for offers passed. Page 20

Europe to approve weather satellite: Europe is expected to approve a Ecu1.9bn ($2.3bn) system of weather satellites to help produce more accurate weather forecasts and answer longstanding US complaints that Europe does not provide its fair share of meteorological observations. Page 2

Nigeria moves to improve image

Nigeria attempted to improve its human rights image by releasing two political detainees in the run-up to a meeting with Commonwealth foreign ministers in London. Nigeria's foreign minister, Tom Ikimi (left), insisted his country was already returning to democracy after several countries threatened to impose sanctions against the military regime in Lagos. Page 4

Aérospatiale and Dassault deal likely: French defence minister Charles Millon said an agreement for state-owned Aérospatiale and privately-controlled Dassault Aviation to merge their aircraft activities is close. Page 19; Lex, Page 16

Britain opposes lifting of whaling ban: Britain toughened its opposition to a resumption of commercial whaling at the opening of the International Whaling Commission's annual meeting saying it would oppose any move to lift the decade-old moratorium. Page 4; Editorial Comment, Page 15

East Asian barriers 'distort trade': A Swedish study has accused East Asian economies of erecting barriers which distort international trade and blocking expansion by European companies. Page 6

Sol Meliá, the Majorca-based hotel group scheduled to begin trading on the Madrid stock exchange next week, has raised $275m through a record-breaking initial public offering. Page 18

Countries question death of Burma envoy: Denmark and Norway will send envoys to Burma to seek a full explanation for the death in prison of their shared consul, Leo Nichols, a friend of pro-democracy leader Aung San Suu Kyi.

Clinton's poll lead cut: President Bill Clinton's lead over likely Republican nominee Bob Dole has dropped to 5.6 percentage points in a poll released by the John Zogby Group International which had Clinton leading Dole by 44.5 per cent to 38.9 per cent. Clinton wins time in sex harassment suit, Page 5; Family values in Nashville, Page 16

Seeds lose at Wimbledon: Former Wimbledon champion Andre Agassi, the third seed, was one of four men's seeds knocked out on the opening day of this year's championships. Also eliminated were sixth seed Michael Chang, eighth-seeded Jim Courier and France's Arnaud Boetsch, seeded 15.

England and India draw Test: England drew the second Test against India at Lord's. England scored 344 and 278-9 to India's first innings total of 429. England lead the series by 1-0 with the third and final Test staring on July 4 in Nottingham.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,738.46	(+33.25)
NASDAQ Composite	1,184.05	(+8.61)
Europe and Far East		
CAC40	2,087.63	(+13.45)
DAX	2,586.43	(+26.32)
FT-SE 100	3,710.8	(-11.5)
Nikkei	22,693.20	(+72.55)

US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.246%
Long Bond	96½
Yield	7.087%

OTHER RATES

UK: 3-mo Interbank	5¾%	(same)
UK: 10 yr Gilt	96⅓	(96⅜)
France: 10 yr OAT	104.58	(104.62)
Germany: 10 yr Bund	97.52	(97.40)
Japan: 10 yr JGB	98.1913	(97.9813)

NORTH SEA OIL (Argus)

Brent Dated	$18.38	(18.41)

GOLD

New York: Comex		
(Aug)	$385.7	(386.8)
London:		
close	$384.30	(383.65)

DOLLAR

New York: lunchtime		
£	1.5410	
DM	1.5295	
FFr	5.1855	
SFr	1.26105	
Y	108.95	
London:		
£	1.5399	(1.5402)
DM	1.5315	(1.5289)
FFr	5.1878	(5.1822)
SFr	1.2635	(1.2607)
Y	109.165	(108.99)

STERLING

DM	2.3582	(2.3547)
Tokyo close:	Y 108.165	

Albania	LEK 330	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Cyprus	CE1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr11.50	Kuwait	Fils650	Portugal (m'land)	Esc240	Turkey	L80,000
		Lebanon	LL9,000			UAE	Dh12.00

Prices dip on fears that Sumitomo is unloading part of huge holding

Copper falls to 2½-year low

By Richard Mooney in London, Emiko Terazono in Tokyo and Laurie Morse in Chicago

Copper prices fell yesterday to 2½-year lows as traders responded to fears that Sumitomo Corporation, the Japanese trading house, might have started unloading some of its huge holdings of the metal.

A 5 per cent fall in the morning extended to 27 per cent the decline that began on June 6 after Sumitomo revealed it had made unprecedented losses on copper trading.

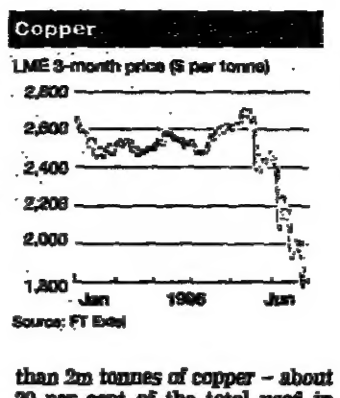
The three months delivery price on the London Metal Exchange dipped at one point to $1,785 a tonne before bouncing to end in after hours "kerb" trading at $1,818 a tonne, down $73 from Friday.

LME traders said the fall had been triggered by a narrowing in short-term price premiums, which suggested that the tight supply situation was easing, perhaps in response to sales from Sumitomo's holding.

Copper trading conditions at the London exchange have been unusually thin in recent weeks, so selling did not have to be very heavy to send prices sharply lower, analysts noted.

Sumitomo yesterday maintained that losses linked to trading by Mr Yasuo Hamanaka, its dismissed chief copper trader, were still about $1.8bn, but admitted that "total trading losses may fluctuate in line with world copper prices".

Traders in London and Singapore have estimated that Sumitomo's losses may be as high as $4bn and have said that the company may have control of more



than 2m tonnes of copper – about 20 per cent of the total used in the western world each year.

"Our copper positions in the market are very complicated ... including options and swaps. The Financial Times's estimate of $4bn sounds too much," Sumitomo said.

The company refused to disclose its copper positions and said: "It could move the market if disclosed."

Sumitomo announced that it would rotate its commodity and currency traders within a four-year period in order to prevent the recurrence of the losses caused by Mr Hamanaka, who had done his job for a decade without even taking holidays.

Under the new rule, managers of commodities, including non-ferrous metals, sugar and rubber, and financial trading divisions, will have a four-year time limit and their subordinates will be replaced within three years.

Meanwhile, Germany's metals trade association, Verein Deutscher Metallhandler, wrote to the LME last week to complain about extreme volatility in copper prices and increased margin calls – deposits required for trades.

"The exchange's traditional clientele ... are now faced with the alternative to cease using the LME or face tremendous cash-flow problems which can even lead to bankruptcy," the VDM said in its letter.

Police in the US state of Vermont yesterday said they had conducted a review of an investigation into a 1991 fire that claimed the life of Mr Paul Scully, a US copper trader. Police said the review confirmed initial findings that both the fire and M. Scully's death were accidental.

Sgt William Merritt of the Vermont police said reports saying the case had been re-opened in response to the Sumitomo copper inquiry were wrong.

Commodities, Page 26

Zyuganov issues call for coalition to govern Russia

Move seen as act of desperation by Yeltsin's Communist rival

By John Thornhill in Moscow

Mr Gennady Zyuganov, the Communist party candidate in Russia's presidential elections, yesterday issued a bizarre appeal to all political forces to unite around him to avert a national collapse.

The move was widely interpreted as a desperate attempt by Mr Zyuganov, who is well behind President Boris Yeltsin in the opinion polls, to revive his flagging election campaign.

With only a week of campaigning possible before the run-off vote between him and Mr Yeltsin on July 3, Mr Zyuganov has no plans to hold election rallies and is almost invisible in the media.

"The situation in the country is developing in such a way that Russia is confronted with great difficulties. No single force is in a dominant position," he said.

He suggested one-third of the government should be composed of ministers drawn from his "national-patriotic" bloc; one-third from other political parties in the parliament, and the rest from the present government.

Mr Grigory Yavlinsky, who came fourth in the presidential elections, suggested Mr Zyuganov's proposal reflected the weakness of his position and was an attempt to seize the centre ground of politics.

"I think Zyuganov really fears very much a possible defeat at the polls. He has every reason to fear," Mr Yavlinsky said.

Mr Zyuganov also floated the idea of a national pact to recognise the legitimacy of all forms of ownership, and make the government more accountable to parliament. It was not clear whether Mr Zyuganov's blueprint would only be implemented in the event of his victory or was an indirect overture to Mr Yeltsin.

Mr Zyuganov's proposals echo those of a group of 13 leading bankers who have for months been pressing for the formation of a government of national unity.

The bankers' proposals are believed to have found favour with some of Mr Yeltsin's administration. They were particularly popular with Mr Alexander Korzhakov, former head of the presidential security guard, and Mr Oleg Soskovets, former first deputy prime minister, who were sacked by Mr Yeltsin last week.

Mr Yeltsin appeared to reject any possibility of compromise.

Voters doubt market view, Page 3

Gennady Zyuganov at a press conference in Moscow yesterday: with only a week of campaigning possible before the run-off vote with President Boris Yeltsin, the Communist party candidate has no plans to hold election rallies and is largely invisible in the national media. Picture: Reuter

Nabisco to shed 4,200 jobs in efficiency savings drive

By Richard Tomkins in New York

Nabisco, one of the world's biggest food groups, yesterday became the latest US company to downsize when it announced plans to cut 4,200 jobs from its workforce of 54,000.

The cuts will be split evenly among the US and other countries. Some company offices will be closed, a number of low-volume products will be dropped, manufacturing and distribution will be streamlined and the sales organisation will be revamped.

Charges associated with the restructuring will wipe out most of Nabisco's profits this year, but the company said the cost would be justified by efficiency savings in later years.

Nabisco's reorganisation comes when corporate downsizing has come under fire in the US. Some politicians and economists have accused companies of sacrificing the long-term health of their industries for short-term gains in their share prices.

But Mr John Greenians, Nabisco's chairman and chief executive, said the move was necessary to improve the company's competitive position and to accelerate "strong, sustainable earnings growth" into the next century.

"We would have liked to have done this without terminating any employees, many of whom have spent a number of years with the company and made positive contributions," Mr Greenians said.

"However, the fundamental changes that we must make require a leaner workforce," he added.

Although separately quoted, Nabisco is 80 per cent owned by RJR Nabisco, the US tobacco and food group. RJR Nabisco has come under increasing pressure to spin off Nabisco completely and yesterday's move is likely to be seen as helping to prepare the food company for independence.

RJR Nabisco's share price was up $⅝ at $33 in early trading yesterday, while Nabisco's was up $¼ at $36.

Nabisco's brands include Ritz savoury biscuits, Planters nuts and A.1. sauce. The company dominates the US biscuit markets, with 49 per cent of savoury biscuit sales and 37 per cent of sweet biscuit sales, according to Chicago-based Information Resources.

Last year, Nabisco increased net income 18 per cent to $314m before extraordinary items, but the company's performance in recent quarters has disappointed investors because of tough price competition in the US nut and savoury biscuit markets.

Yesterday, Nabisco said it would take a restructuring charge of $428m before tax in the second quarter to June. With other costs, net income would be reduced by $338m, or $1.26 a share.

However, Nabisco said these costs would be offset by savings flowing from the restructuring. On a pre-tax basis, these were expected to be $50m this year, $160m next year, and $200m a year thereafter.

Renault and GM to develop panel vans in Europe

By John Griffiths in London

General Motors and Renault are forging an alliance to develop and manufacture panel vans, which are one of Europe's biggest commercial vehicle markets. The project, due to begin in 2000, is expected to involve investment of several hundred million dollars.

The panel van market, which accounts for sales of about 750,000 vehicles a year, is dominated by Volkswagen's Transporter and Ford's Transit.

The project will give General Motors its first big stake in the market since it sold its Bedford subsidiary in the UK in the 1980s. GM will sell the new vehicles under the Vauxhall brand name in the UK and as Opels in continental Europe.

For Renault the project will result in a replacement for its Trafic van range, which has been one of Europe's biggest-selling vehicles in the sector but which is now more than a decade old.

The venture with GM marks the end of a long search by Renault to find a substitute partner for exploiting the panel vans market after its collaborative vans venture with Daf was aborted by the collapse of the Anglo-Dutch commercial vehicle maker three years ago.

GM's decision to seek a collaborative deal follows its rejection of an alternative plan – to import vans built by GM's Chevrolet division in North America.

As an interim measure from next year, Renault will supply GM with the Trafic for sale throughout Europe badged as Opels and Vauxhalls. It will replace the Midi van, built at Luton in the UK by IBC Vehicles, a 50-50 joint venture between GM and Isuzu of Japan.

Midi production, which peaked at more than 12,000 vehicles in the 1980s, has virtually ceased, having fallen to fewer than 4,000 vehicles last year. The IBC plant is now fully occupied with building the Opel/Vauxhall Frontera four-wheel-drive vehicle. The GM-Renault agreement also provides for Renault to supply GM with larger vans from its Batilly

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Ministry reports growth in orders and better retail climate

Signs of life in German economy

By Peter Norman in Bonn

Hopes are growing that Germany may be starting to pull out of its economic downturn. While acknowledging continued weakness in the economy, the German economics ministry yesterday reported "isolated signs" that pointed to "a gradual stabilisation". These follow a 0.5 per cent contraction in real gross domestic product in the first quarter of this year and a stagnant economy in the two preceding quarters.

In its latest monthly report, the ministry said there had been a "marked growth" in foreign orders for German manufactured goods since late autumn. Domestic orders had grown somewhat in recent months and the business climate in the west German retail trade had "clearly improved" since the start of the year.

The ministry admitted that industrial production was sluggish, "although the decline visible up to last autumn had since ceased".

Activity in the recession-plagued construction sector had improved in recent months, although this, the ministry said, was only because businesses were trying to catch up production losses caused by the harsh winter.

Although cautious, the ministry's report was somewhat more positive than the Bundesbank's latest assessment of the economy. A week ago, the central bank damped hopes of an early resumption of economic growth with a monthly report that sighted "rays of light" but no clear indication of a breakthrough.

The ministry said the 3.82m registered unemployed at the end of May were a continuing cause of concern. With the end of the harsh winter, it had become clear that the increase in unemployment since last autumn was largely structural rather than seasonal. Compared with the end of October last year, seasonally adjusted unemployment had risen by 230,000 – western Germany accounting for 160,000 of the total.

In a separate report, the Institute for World Economy, one of the country's leading economic research institutes, warned yesterday that there would be no upturn in demand for labour before next spring. Only then would economic recovery and this year's modest wage increases of just under 2 per cent have a positive impact.

It forecast that unemployment would average 3.94m this year, some 330,000 more than in 1995, and would decline only moderately to 3.92m next year. The Kiel-based institute said GDP growth would slow to 0.6 per cent this year from 1.9 per cent in 1995 before picking up to 2.6 per cent in 1997.

Foreign investors pump cash into Ireland

By John Murray Brown in Dublin

Ireland's success in attracting foreign investment continued apace in 1995. The Industrial Development Agency yesterday reported a record 11,500 new jobs from 114 projects, the best result in 21 years.

The figures underscore the booming economy, which grew at 7.5 per cent last year, and give a fillip to a coalition government anxious to maximise job creation at a time when unemployment is running at 12.7 per cent of the workforce, the second worst rate in the European Union.

Ireland, the second smallest country in the EU, secured 14 per cent of all new investment in Europe in 1995, focused on electronics, pharmaceuticals, teleservices and financial services, according to the report.

The results confirm Ireland's position as one of the leading locations for foreign-owned software companies (it now comprises 40 per cent of all such US investment in Europe) and in telemarketing, where Ireland now accounts for 20 per cent of Europe's international call centres for airlines, hotels and other service companies.

Foreign investment plays a much larger part in Ireland's balance of payments than that of other EU states, accounting for two thirds of manufactured exports, 55 per cent of manufacturing output and 45 per cent of manufacturing employment. US companies account for 60 per cent of existing investment.

The IDA estimates it is in competition with the various UK agencies for 80 per cent of the projects. It believes the main draws are its offer of a 10 per cent corporate tax rate, available to all manufacturing companies until the year 2010, and a young and educated workforce.

Mr Kieran McGowan, the IDA chief executive, said that the improved picture had been achieved despite a slowdown in worldwide semiconductor demand. Companies were starting to review their planned investments in new worldwide capacity, he added, but forecast the overall results this year would be "at least as good as 1995".

Recent years have been marked by a shift to service industries, with the IDA trying particularly to persuade companies to set up their "back offices" in Ireland.

The agency says 60 per cent of the investment approvals were for existing operations, underlining the growing willingness of foreign multinationals to deepen their roots in the local economy. In line with this, the sourcing of local components has doubled since 1988, with foreign investment companies now spending I£2.12bn ($3.3bn) on Irish services and supplies a year.

EUROPEAN NEWS DIGEST

Parties dismiss Eta truce offer

Spain's main political parties dismissed the announcement of a one-week truce by Eta, the illegal Basque separatist organisation, as a manoeuvre aimed at undermining regional inter-party discussions on terrorism this week.

Through the radical Basque daily Egin, Eta announced "a temporary suspension of armed actions" until midnight next Sunday, challenging Spain's new centre-right government to "state publicly its intentions for overcoming the conflict between the Basque nation and Spain".

A government spokesman described the initiative, the first truce since 1989, as "a trap". Other parties said it was a cynical move, especially as a prison officer was still being held hostage by Eta after being kidnapped five months ago.

However, the Basque Nationalist party, one of the regional forces supporting the Popular party government in Madrid, described the truce as "positive" despite its short duration. Eta is seeking a reply to proposals issued last year, when it tried to blow up Mr José María Aznar, now prime minister. Its demands focus on acceptance of the Basque right to opt for independence. *David White, Madrid*

EU pact on terrorist extradition

The European Union yesterday agreed a draft convention on extradition to help avoid situations where suspected terrorists wanted in one EU country could be set free in another.

Officials said the agreement was based on a French proposal for resolving concerns about double jeopardy and the extradition of a country's own nationals.

The convention is seen as essential to avoid a repeat of a diplomatic row which earlier this year almost scuppered the Schengen open-border agreement between seven EU countries. The dispute began when Belgium refused to extradite a couple suspected of having taken part in an attack by the Basque separatist group, Eta *Reuter, Brussels*

Kurds ambushed after congress

Three Kurdish activists were shot and killed in an ambush in central Turkey yesterday as they drove home from the annual congress of Hadep, a Kurdish political party.

No group claimed responsibility for the killings, but human rights groups have linked similar attacks in the past to far-right members of the security forces. Turkey's security forces said up to 10 gunmen fired on the car with automatic weapons near the city of Kayseri. Hadep said it regarded the attack as an act of revenge for anti-Turkish demonstrations at the party conference where hooded activists tore down the Turkish flag and hoisted the flag of the Kurdistan Workers party (PKK). The PKK has been fighting a 12-year separatist war in the mainly Kurdish southeast.

Police later arrested 30 Hadep officials, accusing them of separatism, considered a terrorist offence under Turkey's security laws. *John Barham, Ankara*

Ukraine tries to boost sell-off

Mr Leonid Kuchma, the Ukraine president, has extended the deadline for Ukrainians to pick up privatisation certificates by another three months, to broaden participation in the country's sell-off programme.

By last week, 71 per cent of Ukrainians had collected the free certificates entitling them to acquire shares in state-owned companies, and public interest has grown in recent months after some initial apathy. The mass privatisation programme picked up pace this year, with 600 companies up for sale through certificate auction each month.

Mr Yuri Yekhanurov, chairman of the state property fund, said 2,048 large companies had been sold by the beginning of June, which should enable the World Bank to approve a $310m loan this week. Mr Yekhanurov said the government would shortly approve 180 of Ukraine's best companies for sale by tender to foreign investors. *Matthew Kaminski, Kiev*

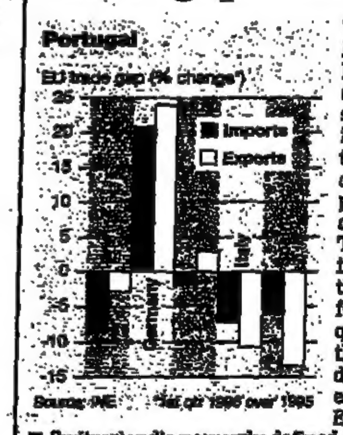
German telecom tariff row ends

Germany yesterday settled a six-month-old dispute with the European Commission when it agreed to allow Deutsche Telekom, the state-owned telecoms group, to introduce rebates for corporate clients on November 1 and not January 1, 1996, as originally planned.

However, Mr Wolfgang Bötsch, the telecoms minister who, with a regulatory committee, oversees the telecoms market, said Deutsche Telekom would have to begin talks with leading companies like Thyssen and Mannesmann to reach new agreements about the discounts. *Michael Lindemann, Bonn*

ECONOMIC WATCH

Trade gap with EU shrinks



The continued decline in Portugal's imports from its key commercial partners in the European Union, and a slight increase in the pace of its exports to Union states in the first quarter, trimmed the country's trade deficit by 13.7 per cent to Es303.3bn ($1.9bn) compared with a year ago. The national statistics institute said yesterday that the deficit with EU members fell to Es164.9bn in the first quarter, 20.4 per cent less than a year earlier. The deficit with non-EU members eased by 3.9 per cent to Es137.4bn. *AP, Lisbon*

■ Switzerland's narrowly defined M0 central bank money supply rose to a seasonally adjusted SFr31,124m in May, up by around SFr300m from April and 3 per cent higher than in the fourth quarter of 1995. The national bank said sight deposits were SFr2,806m in May. Cash in circulation averaged SFr28,087m, or 2.9 per cent above the level a year earlier. The annualised growth rate in M0 was 6 per cent.

Germany's unions to fight shop hours plan

By Peter Norman

Germany's retail and white collar trade unions yesterday promised a fight over plans to liberalise shopping hours, and warned that they would demand compensation for their members if the law were approved.

Ms Franziska Wiethold, a leader of the retail, banking and insurance workers trade union (HBV), virulently opposed the bill agreed by the Bundestag in Bonn last Friday. She threatened industrial action if employers failed to agree generous free time to offset the planned extension of opening hours from 6.30pm to 8pm on weekdays and from 2pm to 4pm on Saturdays.

At a joint news conference, Ms Wiethold and Mr Hubert Gartz, deputy leader of the white-collar workers' union DAG, also called on the Bundesrat, the second chamber of the German parliament, to vote against the bill when it considers the legislation on July 5.

The Bundesrat, which represents the federal states, has the power to delay the bill and to raise the hurdle that it must clear in the Bundestag, the lower house of parliament, to an absolute majority of 337 of the 672 seats.

Because only 327 MPs voted for the bill last week and because several members of Chancellor Helmut Kohl's Christian Democratic Union dislike the plans, opponents of the legislation hope it will fail to become law.

However, Ms Wiethold was taking no chances yesterday. She said the HBV would demand an "attractive working and leisure time system" to be negotiated with the employers.

Shop workers should not be obliged to work late more than two evenings a week and should normally have every other Saturday off. Those working the extra hours should be given up to 55 per cent more free time in compensation.

In addition certain employees, such as single mothers, pregnant women, the disabled and those with elderly dependents, should be exempted from having to work late.

Neither Ms Wiethold nor Mr Gartz mentioned the interests of consumers during their briefing.

Both union leaders appeared hopeful that the Bundesrat would disable the shop hours bill. A majority of states in the second chamber are controlled by the opposition Social Democratic party, which last week voted against the bill in the Bundestag.

Among CDU state leaders, Mr Erwin Teufel, the prime minister of Baden Württemberg, has said that he is very unhappy with the government's plan.

Bonn's relations with Beijing head for a prolonged chill

Michael Lindemann reports on a setback for a Kohl policy priority

Bonn and Beijing edged closer towards a protracted breakdown in relations yesterday when several German ministers called off visits to China and other joint initiatives because of a dispute over Chinese policy in Tibet.

The construction and environment ministers said they would not visit China, and Mr Klaus Kinkel, the foreign minister, whose own forthcoming visit was called off by Beijing at the weekend, said it was still unclear whether President Roman Herzog would proceed with a visit planned for November.

Chancellor Helmut Kohl, meanwhile, issued a statement registering "his regret and incomprehension" at the Chinese decision to call off Mr Kinkel's visit. He had attempted last week to distance himself from the parliamentary motion on Tibet which sparked the row.

His statement said that the motion deploring China's "violent suppression of Tibet" which was passed last week with strong cross-party support by the Bundestag, the lower house of parliament, "did not warrant such a decision".

The fact that Mr Kohl has become embroiled in the row over Tibet suggests that relations between the two countries are likely to worsen further before attempts are made to repair the damage and resume – as both sides have stressed – their previously good relations.

Bonn politics are not known for their excitement but there was unusual suspense yesterday as observers waited to see how Mr Kohl would react to the sudden worsening in Sino-German relations.

Would the chancellor stand full square behind Mr Kinkel, his foreign minister, who admitted he had mismanaged events before the motion by agreeing government funding for a conference on Tibet in Bonn? After Chinese protests, the government withdrew its funding for the conference.

Mr Kohl's statement, when it finally came, did provide the necessary support for his foreign minister, even though the chancellor had been careful to keep his appearance at the Tibet debate short and uneventful. Instead of assuming his usual seat to the speaker's right, he sat at the back of the chamber chatting to other parliamentarians while Mr Kinkel criticised China and he left before the vote.

Getting on well with the Chinese has been one of Mr Kohl's top foreign policy priorities. The effort has been crowned with four visits to Beijing since he came to power in 1982 and he has worked hard to foster trade with China.

Last year, total trade exceeded DM26bn ($17bn), more than double its level five years ago.

Germany's foreign minister Klaus Kinkel, whose planned visit to China has been called off by Beijing AP

He went unusually far to extend a hand of friendship to the Chinese when, during his most recent visit last November, he inspected a Chinese infantry division, becoming the first head of government to do so since the Tiananmen Square killings in 1989.

Beyond that, both countries emphasise the value of long-term perspectives and have worked on a number of joint initiatives ranging from telecoms projects to co-operation among army officers, the latest stage of which was also called off yesterday.

While officials in Bonn say the closer links with China are designed to help the world's most populous nation find its way on to the world stage after years of isolation, businessmen hope that the steady improvement of long-term links will land large contracts, such as the hoped-for sale of the InterCityExpress, the German high-speed train.

The opposition Social Democrats have threatened to make an issue of relations with China in the Bundestag later this week. There were also signs yesterday that several parliamentarians were incensed at China's reaction.

Mr Burkhard Hirsch, a member of the small Free Democratic party well known for his human rights credentials, demanded that other European parliaments pass motions similar to the one approved by the Bundestag in an effort to sway the Chinese regime.

Officials in Bonn insisted, however, that China would not loosen its grip on Tibet, the Himalayan region it invaded in 1950, just one year before it is due to win back control of Hong Kong, the British colony. One former German ambassador to Beijing warned that humans rights "could not be rammed down Chinese throats".

"Our relations will suffer for quite a while, but the Chinese are realistic and have certain expectations of the Europeans at a time when their own relations with the US are unusually bad," the former ambassador said.

Europe plans $2.3bn weather satellites

By Clive Cookson, Science Editor

Europe is expected tomorrow to give preliminary approval for a Ecu1.9bn ($2.3bn) system of weather satellites, to help produce more accurate weather forecasts and satisfy a longstanding US complaint that Europe does not provide its fair share of meteorological observations.

The 17 members of Eumetsat, the agency responsible for European weather satellites, will vote to open the industrial procurement process for the European Polar System at its council meeting in Darmstadt, Germany.

The proposal is to build three satellites, for launch from 2002, to orbit the globe from pole to pole, providing cloud images and meteorological measurements from a height of 850km. They will be Europe's first polar satellites.

Eumetsat currently operates a geostationary satellite, Meteosat-5, which orbits 36,000km above the equator. Its speed exactly matches the rotation of the earth, so it always hovers over the same spot. The agency has already approved a new generation of Meteosat geostationary satellites for launch from 2000.

Meteorology requires observations from both geostationary and polar satellites – and over the past 25 years Europe has relied on data from US polar satellites. Dr Tillmann Mohr, Eumetsat director, said Europe was responding to pressure from the US government to make a fair contribution.

The system is expected to cost a total of Ecu1.9bn (including an Ecu450m contribution from the European Space Agency) to build and run over 15 years.

Matra Marconi Space, the UK-French company, is carrying out initial design studies for the programme, and it will be in a strong position to become prime contractor.

Professor Julian Hunt, chief executive of the Meteorological Office and head of the UK delegation to Eumetsat, said the total UK contribution to the European Polar System would be about £200m ($306m). "The total amount we spend on weather satellites is likely to go up from about 12 per cent of the Met Office budget now to 18-19 per cent by 2000," said Prof Hunt. "But that's because at the moment we get a free benefit from the US satellites."

He said benefits from satellites for computerised forecasting had been "disappointingly small" until recently. But the sophisticated instruments on the new generation of satellites would make them much more useful in future.

Hopeful prognosis in Belgium for continental health

Gillian Tett and **Neil Buckley** on encouraging indications in a bellwether economy

They are not quite trumpeting it yet. But Belgian policymakers now have more reason to smile.

After the economy slid quietly into recession last year, hints emerged yesterday that it may be gathering pace again.

The central bank's monthly survey of the economy – almost the only up-to-date indicator – showed that overall sentiment rose slightly in May. And with the rise following a significant upturn in April, it encouraged the belief that the downturn may be easing.

Such news is undoubtedly a huge relief to the Belgian government, which needs healthy growth in the economy this year to meet the conditions for European monetary union. However, and more significantly, it may also be good news for Continental Europe as well.

For though Belgium is one of the smaller European economies, its economic performance is often a good indicator of the broader trends shaping the Continent.

The reason for this is that it is not only heavily dependent on trade with its large neighbours, but it is also dominated by industries producing raw materials or semi-processed goods. These sectors tend to suffer first when manufacturing companies reduce stocks.

Last year, for example, Belgian gross domestic product fell in the second and third quarters, well before the downturn in Germany or France.

However, these sectors also typically tend to perform well early in economic upturns. Consequently, the hints of an upturn in Belgium may turn out to be one of the first clear signs that business demand is improving elsewhere on the Continent.

For the moment, however, these suspicions can be little more than just that.

For example, the Belgian central bank's own economic indicator, which is compiled from survey evidence, suggests that the trends are still patchy. Although the construction sector has rebounded strongly in recent months, actual manufacturing orders are only improving slowly.

However, the biggest problem in drawing firm conclusions is that there are few hard production figures to support the surveys. The last available industrial data, for example, are six months out of date. And while the fourth quarter gross domestic product figures showed a quarterly increase of 1.8 per cent, there are no first quarter data available yet.

Against this background, the Belgian authorities themselves remain cautious. "There are some signs of an upturn. But we have to be very careful still," said one senior government official.

But, with the government due to unveil its 1995 public finance figures later this week, much is resting on even these fragile hopes.

The government initially expected growth to be about 2.1 per cent this year. At this level it projected that it could achieve the Emu condition – a public sector deficit of 3 per cent of gross domestic product – in 1996, a year before it needs to.

It later revised down its growth forecast to 1.6 per cent. However, the European Commission is now projecting growth nearer 1.1 per cent this year.

The government hopes the final outcome will be nearer 1.3 per cent. But even if growth is only 0.3 percentage points slower than expected this year, it will harm the public finances by about BFr15bn ($475m).

Part of this will be offset by lower interest rates, which have reduced the cost of servicing Belgium's huge debt.

However, some officials suspect that the slowdown means that budget savings may need to be some BFr10bn-BFr20bn larger than the BFr60bn recently suggested by the government. Slower growth makes it harder to reduce the deficit because tax receipts are lower and welfare costs are higher.

The government insists that these reductions will be possible. Mr Jean-Luc Dehaene, the prime minister, recently sought and won from parliament special powers to legislate by decree in economic matters, enabling the government to make adjustments and extra savings even during the summer parliamentary recess.

Meeting the ambitious budget deficit target is a cornerstone of Mr Dehaene's strategy to ensure Belgium is in the first rank of countries qualifying for monetary union. The Country's debt to GDP ratio, at 133.5 per cent, is still well above the 60 per cent level stipulated for Emu. However, the government increasingly believes other EU countries will ignore this problem since it hopes to show that its debt ratio will have fallen by 10 percentage points by 1997, while its deficit will be well below 3 per cent.

But as Banque Bruxelles Lambert in Brussels points out, there are few easy sources of revenue or cuts to improve the finances: income taxes are already higher than the average in Germany, France and the Netherlands, while social spending is lower.

And with a background like this, the government could face some difficult budget decisions in the coming months – even if the latest hints of growth turn out to be genuine.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boëtie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06. Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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NEWS: EUROPE

Boris Yeltsin's latest election poster in Moscow also features a key ally, Mr Yuri Luzhkov, the city's combative mayor AP

Russian voters doubt market view of easy Yeltsin victory

By John Thornhill in Moscow

To rationally-minded western investors, who have bid up the local stock market to dizzying heights, the outcome of Russia's presidential elections is perfectly clear.

Mr Boris Yeltsin topped the first round of voting with 35 per cent and has successfully co-opted Mr Alexander Lebed, the former general, who came third with 14 per cent.

By ditching three hardline supporters last week, Mr Yeltsin has also moved to appease his liberal critics. That should win the support of many of the 7 per cent of the voters who backed the fourth-placed Mr Grigory Yavlinsky, whatever he might say.

The latest opinion poll, conducted by the VTsIOM organisation between June 18-20, forecasts Mr Yeltsin could win 53 per cent in the second round compared with 34 per cent support for Mr Gennady Zyuganov, the Communist party challenger.

Other polls, too, suggest Mr Yeltsin is well in the lead – even if some of them suggest he is still short of an absolute majority.

But while such logic may appear overwhelming, it also appears too simple to many a Russian mind. There has been no end to furious speculation about alternative endgames in the electoral battle.

Some of Mr Yeltsin's supporters themselves believe they are far from assured of victory. As they see it, Mr Zyuganov won 24m votes in the first round and may well be able to attract several million more disgruntled voters from the ranks of the defeated candidates.

Russia's 108m registered electors could easily give Mr Zyuganov a total of 28m votes, which, under some circumstances, would be enough to win.

If a combination of voter fatigue, official apathy, and the weather reduces the voter turnout from 70 per cent to 50 per cent, then Mr Zyuganov's well-disciplined cohorts could still prevail.

Mr Yeltsin's supporters are therefore desperate to mobilise the vote. They have been able to switch the polling day from a Sunday to a Wednesday when they assume more people will go to the polling stations. They are also organising a series of politically-oriented rock concerts to help persuade young voters to turn out. Mr Yuri Luzhkov, Moscow's combative mayor and strong supporter of Mr Yeltsin, yesterday made an impassioned plea for Russians to vote at this "critical moment in our Fatherland's history" and "not allow the future of the country to slip out of our hands".

"The vote of each one of you can be decisive," Mr Luzhkov said.

But the danger of voter disillusionment appears strong given the antipathy felt towards both candidates by many Russians. In particular, it is unclear how motivated the supporters of the eight defeated presidential candidates will be to vote in the second round.

Mr Lebed's sway over his supporters, for example, does not even fully extend 200km out of Moscow to his own parliamentary constituency of Tula. A straw poll in the streets of the dusty military town last week found Mr Lebed's supporters were far from guaranteed to line up behind Mr Yeltsin as the former general commands.

Mr Valery Shestakov, a 54-year-old odd-job man who backed Mr Lebed in the first round to restore order in Russia, says he would now vote for Mr Zyuganov. "Lebed says he will fight against crime and corruption. But the biggest criminal in Russia is Yeltsin for starting the war in Chechnya and they say Chernomyrdin [the prime minister] is a billionaire. Will Lebed arrest them both?" he asks.

Mrs Tamara Yurishcheva, a fierce Lebed loyalist and head of his local campaign team, admits a lot of his supporters were in shock when they learned he had moved into the president's camp.

"Many people were crying when they heard the news and did not know what he was doing," she says. "There is a possibility that our people simply will not vote."

If Mr Yeltsin's private opinion polls do turn gloomy, few rule out the possibility that the president would look to cut a pre-election deal with Mr Zyuganov – especially after the Communists yesterday opened the door to the formation of a coalition government in return for amendments to the Constitution. But for the moment, a buoyant Mr Yeltsin appears to have more zest for the fight than Mr Zyuganov and is determined to win outright.

Brussels accuses Kohl of blocking transport networks

By Lionel Barber in Brussels

The European Commission yesterday pointed the finger at Chancellor Helmut Kohl of Germany for blocking the extra Ecu1bn ($1.23bn) funding needed to launch the EU's showcase transport networks.

Brussels officials said yesterday that the chancellor had changed his mind at the weekend EU summit in Florence after pressure from Mr Theo Waigel, the German finance minister.

Mr Waigel later combined with Mr Kenneth Clarke, UK Chancellor, to block the Ecu1bn funding plan.

The deadlock over the trans-European networks was a political setback for Mr Jacques Santer, president of the European Commission, who thought he could count on Mr Kohl's support.

Mr Santer had hoped to use the launch of the networks as a symbol for the EU's commitment to the region's 18m unemployed and to bolster competitiveness in Europe through a so-called Pact of Confidence between governments, employers and trade unions.

The Commission took the unusual step yesterday of publishing a list of projects which could have gone ahead if extra EU funds had been made available. At the top of the list was construction work on the Erfurt/Nuremberg high-speed train in Germany. Other delayed work includes a trial bore of the base tunnel through the Brenner Pass; completion of the Brussels-Frankfurt section of the rail-link between Paris and London via Cologne and Amsterdam; acceleration of work on the French and German sections of the high-speed TGV east destined for Kiev and Moscow;

> Commission president Jacques Santer saw the launch of the networks as a symbol of the EU's commitment to its 18m unemployed

construction of a trial bore for the base tunnel between Turin and Lyons.

Other projects delayed are the conclusion of a financing plan for public-private partnerships on the Athens ring road; launching of studies on the international section of the TGV south; and funds for choosing public-private partnerships for the Nordic Triangle transport projects.

Mr Santer's original proposal was to shift Ecu1.7bn of underspending from the EU farm budget to trans-European networks and EU research and development. Mad cow disease killed off the plan as estimates for compensation to EU farmers rose to Ecu1.6bn this year. Also officials conceded that it would have been very difficult to reach the required unanimity among member states.

Mr Santer's second compromise was to ask member states to commit to the funding of Ecu1bn for TENs networks, but defer disbursement to 1998-99.

This move only required a qualified majority of countries. Germany, Sweden and the UK raised objections, while the Dutch had reservations.

However, Chancellor Kohl's decision to block was decisive and was linked to the Bonn government's DM50bn austerity plan needed to help Germany meet the Maastricht targets for European monetary union, said an official.

German officials said in Florence that the networks had received generous support from the European Investment Bank, and the delay in launch was due to the lack of compatible national standards as well as insufficient confidence among private investors.

But the European Commission said yesterday that the Ecu1bn would have acted as a catalyst for more funding from the private sector.

Gummer to seek 5%-10% cut in gas emissions by year 2010

Global warming call for EU

By Leyla Boulton,
Environment Correspondent

Britain will today urge its European Union partners to make a firm commitment to cut greenhouse gas emissions, associated with global warming, by the year 2010.

Mr John Gummer, the environment secretary, will ask the EU to urge the developed world to cut its emissions by between 5 per cent and 10 per cent by 2010. "If the EU does not call for a reduction, nobody will," said one UK official yesterday.

Today's meeting of environment ministers in Luxembourg is the EU's last chance to agree a common stance before international climate change talks in Geneva next month.

Many developed countries will not even honour a pledge which was entered into at the Rio de Janeiro environmental summit in 1992 to cut emissions to 1990 levels by the year 2000. The Geneva talks aim to edge closer to agreeing reductions for the next century at a final round of negotiations to be held in Japan next November.

Mr Gummer's initiative is unambitious for Britain, which is likely to have virtually achieved the proposed cuts as early as 2000 – thanks in large part to its switch to gas-fired power stations. It expects its emissions by the year 2000 to fall 4-8 per cent below 1990 levels.

But Mr Gummer will argue that this modest stance is the least the EU can do to take the lead on global warming in the absence of leadership from the US.

He will say that it is not realistic to ask developed countries to do more, given that many, including the US, will not even be able to cut emissions to 1990 levels by the year 2000.

Calling for modest precautionary measures that will cost nothing – such as more efficient use of energy – a UK official said that there was "no political mandate for painful action" on global warming because few people took it seriously.

"Many people assume that the effects of climate change will be benign – the Costa del Sol coming to Brighton. But even small changes in climate and temperature can have big effects on people's lives and not all of them will be pleasant," he said.

International scientists warn that the earth's temperature could rise by 2°C over the next century unless action is taken to stabilise emissions of carbon dioxide and other gases generated by the consumption of fossil fuels.

However, today's meeting is likely to show just how divided EU nations remain.

Denmark wants a radical 50 per cent reduction by 2030. At the other end of the spectrum, poorer EU nations such as Portugal, Ireland, Greece, and Spain want to continue increasing their emissions in order to catch up with their richer EU neighbours.

The UK believes it will have the support of Germany and the Netherlands, but not France and Sweden, which may find it harder to achieve further reductions because of their heavy reliance on nuclear energy.

Christopher picks up Mideast peace baton

By Yaroslav Trofimov in Jerusalem

Mr Warren Christopher, US secretary of state, arrives in the Middle East today for the first time since the right wing won the Israeli election and disrupted the delicate US-sponsored peace process.

The visit comes in the wake of the Arab summit in Cairo, which warned Israel that the Arab world might "reconsider" progress towards the normalisation of relations with the Jewish state if the new government in Jerusalem reneges on its commitments to trade land for peace.

On his first stop, in Jerusalem, Mr Christopher is due to meet with the newly-elected prime minister, Mr Benjamin Netanyahu. The two will try to defuse tension in bilateral ties caused by the almostmopen support given during the election by the US to Mr Netanyahu's rival, former prime minister Shimon Peres.

"Mr Christopher is basically trying to figure out what's going on and what the new Israeli government is going to do – and he will be asking very specific questions, such as what's going to happen with the pullout from Hebron," said Mr Barry Rubin, a political scientist at Israel's Bar Ilan University.

Significantly, Mr Christopher – also scheduled to meet in Cairo tomorrow with Mr Yassir Arafat, the Palestinian leader, and Mr Hosni Mubarak, the Egyptian president – will not be going to Syria. Securing a Syrian-Israeli peace deal was a key purpose of Mr Christopher's two dozen missions to the region since 1992.

However, the already stalled peace talks between the two neighbours now appear completely deadlocked as Mr Netanyahu's government rules out any territorial compromise over the Golan Heights, captured by Israel from Syria in the 1967 war.

Mr David Levy, Israel's foreign minister, who raised diplomatic hopes last week by saying that Israel might meet Syria "half-way" on the Golan problem, backtracked yesterday under Mr Netanyahu's pressure, saying that meeting half-way merely "means you sit and talk".

Mr Netanyahu is expected to discuss a potential impact of his hardline policies on the Middle East peace process in detail during talks with Mr Clinton in Washington, scheduled for early July.

Meanwhile, two bombs planted by the Hizbollah guerrillas exploded in the Israeli-occupied "security zone" in southern Lebanon. No one was hurt, pro-Israeli security sources said. This was the first attack since April 27, when, as a result of Mr Christopher's mediation, Israel ended its "Grapes of Wrath" military campaign launched in response to Hizbollah shelling of northern Galilee.

Nigeria fails to reassure ministers

By Bruce Clark in London and Paul Adams in Lagos

Tom Ikimi, Nigeria's foreign minister, with other Commonwealth ministers in London yesterday

Nigeria tried to shore up its battered image by releasing two political detainees in the run-up to a meeting with Commonwealth foreign ministers that began yesterday in London.

However British officials said the release of Mr Tunji Aboyami and Mr Abdul Oroh, as well as other gestures by the Nigerian regime, fell far short of the timetable for democracy which Lagos should adopt to avoid the risk of further sanctions.

Britain and seven other Commonwealth members threatened in April to recommend a broad range of punitive measures against Nigeria's military leaders – but they also offered the Lagos regime the chance to argue its case.

Mr Tom Ikimi, Nigeria's foreign minister, insisted angrily that democracy was already returning to his country as he began talks yesterday with his counterparts from the UK, Canada, Zimbabwe, Jamaica, Ghana, South Africa, Malaysia and New Zealand.

The eight countries make up the Commonwealth Ministerial Action Group, which was formed last November after Nigeria was suspended from the club of former British colonies because of the hanging of writer Ken Saro-Wiwa.

In recent efforts to parry international criticism, the Nigerian government has restored the right of courts to demand access to detained persons, and removed military officers from the special tribunals of the kind that condemned Saro-Wiwa.

The officials said that if the two-day London talks brought no satisfaction, Britain would suggest that the Commonwealth as a whole to endorse the sanctions already adopted by the European Union.

These include a suspension of high-level visits, sporting contacts, military links and most development aid.

Iraq to allow arms sites access

By Michael Littlejohns, United Nations Correspondent

Iraq, in an important concession, has agreed to allow the United Nations inspectors immediate unrestricted access to all of its weapons sites, it was announced last night.

Mr Rolf Ekeus, head of the UN inspection commission who negotiated the agreement which he and Mr Tariq Aziz, the Iraqi deputy prime minister, signed in Baghdad on Saturday, called it very significant.

It appeared, he said, to resolve a problem that had bedevilled inspection operations, most recently earlier this month when the UN was barred by Iraq officials from entering a suspected weapons site.

"I have full confidence that this will hold," Mr Ekeus added. However he told reporters that the commission remained convinced, despite Baghdad's denials, that prohibited biological, chemical and other weapons were being concealed. The accord could enable inspectors to ferret them out.

He and Mr Aziz would meet every other month to review the situation, because only practical experience would demonstrate whether Iraq was playing its part in the agreement.

If Iraq "came clean" at last, the commission would be able to certify to the Security Council that all material prohibited under the ceasefire resolution had been identified and destroyed. This could open the door to the total lifting of sanctions.

So far there has been only a partial relaxation to allow Iraq to sell up to $2bn of oil to buy food and medicines. Details for implementing that plan are still being worked out.

Deadline for nuclear test ban accord drawing near

Deal is closer than ever, but success is still not guaranteed, writes Frances Williams

More than 40 years after India first proposed a ban on all nuclear testing, a comprehensive test ban treaty is within the world's grasp. Yet, just days before the deadline of Friday for completing the pact, success is still not guaranteed.

In the new political climate of the post-cold war era, the auguries for concluding a test ban accord have rarely been more auspicious. Four of the five declared nuclear weapons states – the US, Russia, Britain and France – have imposed voluntary moratoria on further testing and China has now announced it will join them after its 45th nuclear explosion in September.

After two and a half years of talks, negotiators in the 61-member United Nations disarmament conference in Geneva are racing to meet a June 28 deadline set with the aim of producing a treaty for signature at the 51st UN general assembly in September.

A test ban pact would, in the view of most disarmament experts, halt the nuclear arms race by preventing the testing of new types of atomic weapon, and mark a decisive step on the road to eventual nuclear disarmament.

Failure could set back non-proliferation and disarmament efforts for years to come. But divergences over the details of the treaty text could still sink agreement:

● Entry into force. The draft released yesterday compiled by Mr Jaap Ramaker, the Dutch diplomat chairing the talks, retains the provision for entry into force after ratification by all 37 countries that have nuclear test monitoring stations.

These include the five nuclear weapons states and the three "threshold" states of India, Pakistan and Israel as well as countries such as Canada, Egypt, Germany, Iran, Japan, South Korea, Saudi Arabia and South Africa.

However, this formula leaves the treaty hostage to the refusal of any one country to ratify, a danger underscored last week when India said it could not sign the pact as it stood.

Last week Mr Ramaker attempted a compromise.

Success would mark a decisive step toward nuclear disarmament. Failure could set it back for years

Under his complex proposal, if after five years one or more of the 37 had not ratified, the treaty could be brought into force by a two-thirds majority of ratifying states – but any country that objected could refuse to be bound by the pact until its own conditions were met.

Thus Pakistan has said it will not sign the treaty without India, which exploded a nuclear device in 1974. Israel has indicated it will sign.

Despite attracting "wide support" from other delegations, Mr Ramaker's proposal was firmly rejected by Britain, Russia, China and Pakistan. British officials, denying that their stand is a cynical move designed to ensure the treaty will never enter into force, say without the eight nuclear and threshold states the treaty would be "pointless".

● Disarmament. Non-aligned states have pressed for the treaty to be placed firmly in the context of eventual nuclear disarmament.

Otherwise, they say, it will be simply another non-proliferation measure designed to preserve the nuclear advantage of the major powers.

However, India, with some support from Pakistan and Iran, wants to go further by insisting on a firm commitment by the nuclear weapons states to scrap their nuclear arsenals within a fixed time-period.

This is unacceptable to the five declared nuclear powers, and judged unrealistic by most other nations.

● Scope. China's decision earlier this month to drop its insistence on permitting "peaceful nuclear explosions" (PNEs) means that all five nuclear powers now agree on a zero-yield treaty that would ban "any nuclear test explosion or any other nuclear explosion". This is the language used in the chairman's draft.

However, Mr Ramaker has conceded China's demand for PNEs to be automatically considered by the first treaty review conference after 10 years, even though a consensus requirement makes it almost inconceivable that PNEs will ever be allowed. Several countries, among them Japan, Australia and Canada, are adamantly opposed to any mention of PNEs in the treaty.

A second problem on scope relates to demands by India, Pakistan and Iran that the ban should apply to all nuclear tests including computer simulations and sub-critical tests, not just nuclear explosions. (In sub-critical tests, the bomb ingredients do not produce a chain reaction and explode with no nuclear yield.)

The three countries argue that the wider ban is essential if the treaty is to stop the "qualitative improvement" of nuclear weapons. But the nuclear powers say such non-nuclear tests are essential to ensure the continued safety and reliability of their nuclear stockpiles.

● Verification. The western powers want tough verification measures with quick approval by the treaty's executive council for on-site inspections if violations are suspected. China, Russia, Pakistan and India are insisting on a two-thirds majority in favour, an almost impossible condition.

Mr Ramaker has proposed authorisation of on-site inspections by a simple majority of the executive council. But China shows little sign of giving way. "If China doesn't move," says one western negotiator, "I don't think there will be a treaty."

"It's going to be a complicated game," says Mr Ramaker, the long-suffering chairman. "But I still believe we will have a successful outcome on June 28."

Fear and loathing bring bad omens for Burundi

Evening is an ominous time in Bujumbura. It is then, in the hours before curfew, that a deep chanting echoes across Lake Tanganyika. The sound, full of the promise of future violence, comes from the troupes of young men jogging in close formation through what is now an almost entirely Tutsi city.

These are the civil defence units set up at the prompting of Mr Antoine Nduwayo, Burundi's Tutsi premier, ostensibly to improve security. In fact, say locals, they have been recruited from the extremist militias of Bujumbura and their members are behind the growing number of assassinations of prominent Hutus.

As African presidents meet today in the Tanzanian town of Arusha to take stock of what the United Nations has called an impending disaster and keep former Tanzanian president Julius Nyerere's faltering peace initiative alive, the omens are not good.

While analysts speculate over whether Zairean President Mobutu Sese Seko, considered a key regional player, will snub the one-day summit – thereby torpedoing the latest in a series of inconclusive peace efforts – the situation on the ground continues to deteriorate and the country's Tutsi population is visibly preparing for the apocalypse.

In the suburbs, families are stocking up on food and water. Local authorities have drawn up plans for the protection of women and children. And the 20,000-strong army, little more than a Tutsi protection force, recently boosted its numbers by a third.

"People are in a suicidal frame of mind," says a local journalist. "They tell themselves there is nowhere to run to, so they must stay and fight, to the last man."

The siege mentality has been hardening since the Forces for the Defence of Democracy (FDD), a Hutu-dominated rebel force based in neighbouring Zaire, stepped up their campaign to destabilise Burundi this spring, extending operations to every province of the country. More than 1,000 people a month – mostly Hutu civilians suspected of collaboration – are dying in tit-for-tat strikes by the rebels and army.

Tutsi fear feeds off two traumatic events in their history: the massacre in 1993 of 100,000 Tutsis killed in revenge for the army assassination of Burundi's first Hutu president, and the state-organised genocide a year later of Rwanda's Tutsi population – a terrifying lesson of what could happen to an elite once it released the reins of power.

Mr Nyerere, who has been chairing talks between the country's two main political parties, compares the Tutsis to a man riding the back of a tiger. "The Tutsis in Burundi are genuinely frightened. They cling to power because they believe it is the safeguard of their security. But they are fertilising that fear, not killing it, because Hutu resentment has to be answered."

Zaire's President Mobutu: may snub the one-day summit

Fear has lead to inflexibility. A series of meetings in the Tanzanian town of Mwanza between FRODEBU, the Hutu-dominated party, and the Tutsi-dominated UPRONA, its theoretical partner in government, have been scuppered by UPRONA's refusal to sign even basic statements of principle.

What many regard as Burundi's last chance for peace risks being sabotaged by UPRONA's refusal to talk to Mr Leonard Nyangoma, the former interior minister heading the FDD. A deal bypassing Mr Nyangoma, who has signalled his readiness to talk, would be meaningless.

"If you have a debate which excludes certain people, those excluded people will go off and cause trouble. We must have a debate that excludes nobody," says Mr Venerand Bakevyumusaya, Burundi's Hutu foreign minister. Diplomats agree: "It's not a question of liking or disliking it – Nyangoma cannot be ignored," says one. "He has won his place at the negotiating table."

The international community, mindful of its failure to avert Rwanda's genocide, has been applying carrot and stick tactics in an attempt to push the two sides to agreement.

As an incentive, the UN has promised hefty financial help to revive Burundi's crippled economy. "We want Burundians to know there is a readiness to move fast and in a very substantial way on the economic development side as soon as we have clear demonstration serious political discussion is going on," says Mr Marc Faguy, UN special representative.

The stick takes the form of warnings to the army from top American officials making clear that any government that seized power by force would not be recognised.

Washington and European Union, which until recently provided 23 per cent of Burundi's GNP, have also put the pressure on by freezing aid. France last month halted military co-operation dating back two decades and also closed its school, a move Belgium will soon follow.

The UN's last card is the threat of a "humanitarian intervention" to halt the killings. But both the US and France – scarred by experiences in Somalia and Rwanda – have said that while they will provide funding, they will not contribute a single soldier to such a force.

Increasingly, analysts talk of some violent event – perhaps the assassination of the figurehead Hutu president, Mr Sylvestre Ntibantunganya – triggering all-out civil war and the total breakdown of government. The danger, Mr Nyerere points out, is that Rwanda would immediately be sucked into the conflagration as its army rushed to the rescue of the Tutsis and the exiled Hutu militias in Zaire joined forces with the FDD.

"At the moment no one is talking about the future, they're just talking about revenge for the past," says a diplomat. "Each side has to accept they are guilty and move on from demanding absolute justice. We need a massive change of heart."

Michela Wrong

Britain hardens stance on whaling

By James Buxton in Aberdeen

Britain yesterday toughened its opposition to a resumption of commercial whaling, telling the International Whaling Commission it would oppose any move to lift the moratorium which has been in existence for the past decade.

Mr Tony Baldry, the UK's fisheries minister, said there were now "wider reasons" for opposing commercial whaling than the technical issues on which it has raised up to now. Whaling, he said, "meets no pressing nutritional, economic or social needs, and it is strongly opposed by the vast majority of our citizens".

Mr Baldry put this view in a written statement on the opening day of the International Whaling Commission's annual meeting in Aberdeen. Over the next few days the 39 members of the commission will attempt to resolve pressing issues on international whaling.

The moratorium on commercial whaling was imposed in 1986 because of the sharp decline in stocks of most whales. However Japan does a small amount for what it terms scientific reasons, and Norway, which never accepted the moratorium, in 1993 resumed killing a small number of minke whales.

Up until recently the UK's position was that the moratorium should stay in force because of concern about whale stocks and the methods used to kill whales and the absence of internationally agreed measures to control commercial whaling.

The UK acknowledges that stocks of some species of whale, particularly the minke whales, have now substantially recovered, though others are still in danger.

British officials say the government's new position of objecting to whaling on moral grounds is less ambiguous than the previous one. However critics of the UK, such as Norway, believe it is at odds with the objectives of the IWC which are to provide for the proper preservation of whale stocks and "thus make possible the orderly development of the whaling industry".

This week's meeting will review the main aspects of whaling but is not thought likely to agree on a revised management programme, a long-standing source of discord in the IWC.

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NEWS: THE AMERICAS

Clinton wins time in sex harassment suit

By Jurek Martin in Washington

The White House breathed a sigh of relief yesterday as a Supreme Court ruling made it highly improbable that the sexual harassment suit against President Bill Clinton will come to trial before the November election.

The highest bench agreed to hear oral arguments over whether the case can proceed, but not until its next full term, which begins in October. Under normal court procedure weeks or even months elapse before a judgment is issued.

It will pass judgment on the contention of Mr Clinton's lawyers that a sitting president should not "in all but the most exceptional cases" be subject to private civil damages suits until he leaves office.

Their brief states that no president has ever faced such an action and that to sanction such a precedent would open the floodgates to frivolous lawsuits that would impair a president's ability to carry out his constitutional duties.

Mr Mike McCurry, Mr Clinton's press spokesman, said the White House was "pleased that the court has recognised the merit of the petition put forward by the president's attorneys" on what he called "very important constitutional issues".

Ms Paula Corbin Jones, a former employee of the Arkansas government, is seeking $700,000 in damages from Mr Clinton

Clinton: seeking a delay

for unwanted sexual overtures she alleges the then governor made to her in a Little Rock hotel room in 1991. Mr Clinton has denied the incident took place. A federal judge in Little Rock initially ruled that a sitting president could not be sued until he leaves office, but that was overruled in January by a higher appeals court. Yesterday's action renders moot for the moment the appeals court verdict.

Mr Robert Bennett, the president's chief private lawyer, had earlier provoked an outcry with a legal brief claiming that, as commander-in-chief, the president was entitled to protection under the 1940 Soldiers and Sailors Act, which permits delays in lawsuits against the military. That tactic was abruptly withdrawn.

Ms Jones's lawyers argue that her suit poses no threat to the functioning of the executive branch of government and that to delay the case would prevent her from collecting evidence "before memories fade, documents are lost and witnesses die or become incapable of testifying".

The Jones case has flickered in and out of public view ever since she first made her allegations more than two years ago. It has been kept alive in the rightwing media, though frequently taking second place to Whitewater-related matters.

Nevertheless, should the Supreme Court rule against the president and permit her case to go ahead, even after November, Mr Clinton would find himself in the embarrassing predicament of having to defend himself both in pre-trial evidence-gathering and, quite possibly, in court itself.

Reform struggles to woo Canadians

A Fresh Start for Canadians was the theme that Canada's rightwing Reform party chose for its biennial conference in Vancouver earlier this month. In fact, it was Reform itself, that needed to freshen up.

Even Reform supporters have been dismayed by the party's performance since it shot to prominence by winning 52 out of 295 seats in the 1993 general election.

The Calgary-based party has struggled to convince Canadians that it is more than a western populist movement dominated by rightwing farmers and religious fundamentalists. Its MPs have generally been a less effective opposition in the House of Commons over the past three years than the 54 members of the Bloc Quebecois, whose main goal is to promote Quebec independence.

With the next election no more than two and a half years – and possibly less than a year – away, Reform's future is in the balance. The real excitement of the election will centre less on which party wins than on who brings up the rear.

Prime Minister Jean Chretien's Liberals are odds-on favourites to gain a second five-year mandate. The most bruising battle is likely to take place to the right of the Liberals between Reform and the Progressive Conservatives.

The stakes are high for both parties. The Tories, who held office from 1984 to 1993, suffered a devastating setback in the last election. Although they polled the second highest number of votes across the country as a whole, they won only two seats in the House of Commons. A similar showing in the next election could put the final nail in the Tories' coffin.

Reform's challenge is to hold on to and, if possible, expand the bridgehead it gained in 1993. Founded only nine years ago, its strength has so far been concentrated in the west. All but one of its 52 seats are in the four western provinces. The party aims to win another 100 seats in the next election, but can do so only by breaking into the industrial heartland of Ontario, which elects 100 MPs, or almost a third of the total.

Disappointment at Reform's recent performance was evident among the 1,200 delegates in Vancouver. Several stressed that the party was still at the stage of learning from its mistakes. According to an opinion poll earlier this month, support for Reform has slipped to 13 per cent of decided voters, compared with 16 per cent for the Tories, the highest level since the 1993 election. The Liberals remain ahead with 53 per cent.

Reform learnt one of its toughest lessons last month when its MPs bickered publicly over a bill to extend human rights guarantees in the constitution to homosexuals.

One British Columbia MP was suspended from the caucus for suggesting that a shopkeeper would be justified in sending homosexual or black workers to the back of the store if their presence hurt his business. Another was suspended for supporting him. A third member quit the party

Despite the enormous publicity generated by the Vancouver meeting, a Reform candidate came a dismal fourth – behind the Tories – in a by-election last week in Hamilton, Ontario

in protest against the antediluvian views of her colleagues.

Mr Preston Manning, Reform's less-than-inspiring leader, warned his troops that "for a new party to become a governing party, we must first master the government of ourselves ... maintaining our focus, disciplining departures and diversions therefrom, acknowledging and correcting our deficiencies rather than denying or ignoring them".

Mr Manning used the Vancouver meeting to try to steer the party closer to the middle of the road. Delegates adopted a platform that emphasised issues high on most Canadians' priority list, such as fiscal discipline, job creation and crime. They affirmed a policy of moving speedily towards a balanced budget, followed by tax cuts and a move to a flat tax.

By contrast, a resolution proposing that any MP who supports Quebec secession should be expelled from parliament was withdrawn. But whether this will be sufficient to convince voters in Ontario that Reform has changed its spots remains to be seen.

The party still has a way to go before it can claim to be a national organisation. More than 60 per cent of the delegates in Vancouver were from the two most westerly provinces, Alberta and British Columbia. Scarcely a word of French was heard.

Despite the publicity generated by the Vancouver meeting, a Reform candidate came a dismal fourth – behind the Tories – in a by-election last week in Hamilton, Ontario.

Mr Manning's attempt to project a more moderate image could provoke friction between the party leadership and the grassroots.

Reform often boasts of its commitment to "bottom-up democracy". It supports free votes in the House of Commons and the right of constituencies to recall their MPs. However, as the recent suspension of MPs shows, Mr Manning has found it increasingly necessary to crack the whip of party discipline.

Many Reform members have no burning desire to moderate their views. A constant refrain in Vancouver was that the party should stick by its conservative guns.

The assembly adopted resolutions calling for looser gun controls and for HIV (the virus that leads to Aids) to be classified as a reportable infectious disease. One delegate advocated "shock treatment" for criminals, in the form of a 20,000 volt shock.

Such views remain well to the right of the mainstream. However, the extent to which they hinder Reform's cause will depend partly on the Conservatives' ability to stage a comeback. That should become clearer after the Tories' policy convention in Winnipeg in August.

Bernard Simon

AMERICAS NEWS DIGEST

Carter may be tobacco witness

Former President Jimmy Carter may be called to testify against the US tobacco industry when Mississippi's landmark lawsuit against cigarette makers reaches trial, according to court documents.

Mr Carter's name appears on a list of possible witnesses contained in documents filed last month in Jackson County Chancery Court.

Also on the list are numerous scientists and industry employees, including former researchers for RJR Nabisco's tobacco subsidiary R.J. Reynolds.

Until now, the names of former R.J. Reynolds employees have not been mentioned among industry insiders who Mississippi attorneys hope will testify.

The state is suing big cigarette makers and other members of the tobacco industry for Medicaid funds spent to treat poor people for smoking-related illnesses. Eight other states already have chosen to follow Mississippi's lead. Others, including Arizona, are also expected to take action.

Mr Carter has said that while president between 1977 and 1981 he felt pressure from the tobacco industry as it sought to avoid regulation aimed at protecting children. *Reuter, Jackson*

Foreign aid 'benefits US'

Foreign assistance programmes benefit the US economy because more than 80 per cent is spent in the US on American goods and services, a trade group said in urging a 50 per cent foreign aid increase.

The appeal was contained in a study published by the Business Alliance for International Economic Development, a coalition representing over 1,000 US businesses.

It recommends that the US match the mean level of US economic assistance of the 1960s – about $18bn in constant 1995 dollars, up 50 per cent from $12.1bn for the current fiscal year. Further cuts are expected in the 1997 programme.

"US economic assistance helps developing countries build the kind of physical, human and institutional infrastructure necessary to spur their economies, to foster trade and to attract private investment – the very things that make possible American exports and thereby, American jobs," the report said. It said the 1994 aid programme translated into 300,000 US jobs. *AP, Washington*

Court backs drugs strategy

The US Supreme Court yesterday upheld an important strategy in the war on drugs, ruling that the government can prosecute people while also suing them to confiscate drug-connected property. The double-barrelled legal strategy does not violate the constitution's protection against being punished twice for the same crime, the court ruled in two cases from California and Michigan.

The Clinton administration had argued that federal and state prosecutors should be allowed to seek civil forfeitures in addition to filing criminal charges. Some federal appeals courts said such forfeitures are civil remedies, not punishment. *AP, Washington*

Violence in Quebec City

Rioters broke hundreds of windows, looted shops and set fire to a government building as Quebec's national holiday celebrations turned violent early yesterday.

Five police officers were injured and about 80 people arrested in the rioting in the historic Carre Youville district of Quebec City's old quarter. The damage was estimated by police at C$500,000 (US$368,000).

Police used teargas and water cannons in an effort to control the riot, which started after a concert attended by about 30,000 people. The violence began when several people began breaking bottles and throwing rocks through windows.

Police responded with teargas as rioters tried to overturn cars, broke more shop windows and raced off with store contents. *AP, Quebec City*

Chilean growth rate 10.2%

Chile's monthly government index measuring economic growth showed the economy expanded a strong 10.2 per cent in April compared with a year ago, said the central bank in its monthly report.

The figure showed economic growth speeding up from March, when the Imacec index registered an increase of 7.2 per cent, but slightly lower than the 10.5 per cent growth recorded in February. The Imacec index is used as a rough guide to the expansion of Chile's gross domestic product. *Reuter, Santiago*

Panama poll cash probe urged

Political opponents of Panama's President Ernesto Perez Balladares have called on lawmakers to investigate the role of drug money in his 1994 campaign.

Mr Perez Balladares acknowledged on Friday that his campaign finances were tainted by a contribution from a company linked to cocaine traffickers, but said the donation was accepted unwittingly.

Over the weekend, the attorney general, Mr José Antonio Sossa, promised a "correct, objective and forceful" investigation. But political opposition leaders said a legislative commission should investigate instead.

Mr Perez Balladares' campaign accepted $51,000 from a company tied to Mr José Castrillon Henao, reputed head of the Cali drug cartel's Panama operation. *AP, Panama City*

WORLD TRADE NEWS DIGEST

Vietnam plans second GSM

Vietnam's state-owned telecommunications monopoly, Vietnam Posts & Telecommunications (VNPT), plans to launch a second global system for mobile (GSM) telephone network which would rival one it already operates with Comvik of Sweden. The new system, VinaPhone, will be 100 per cent owned and operated by VNPT, using equipment supplied by Siemens of Germany under a contract worth about $18m. VNPT will acquire Siemens switching systems and Motorola base stations in a first phase which covers 18 provinces

Demand for mobile phones is growing rapidly in Hanoi and in Ho Chi Minh City, where Vietnamese businessmen are as likely to buy as foreign investors. Mobile phone ownership is estimated at 35,000 in a total population of 74m.

VNPT already runs a GSM network called MobiFone with Comvik, partly owned by Stockholm-listed Kinnevik. This covers about 20 provinces. VNPT's vice director of marketing, Mr Lam Doi, was quoted in a local newspaper as saying that the company had decided to go for a wholly Vietnamese project as a way of avoiding "sharing profits with foreigners". The company has been growing fast and is understood to have a cash flow problem. However, it recently received a $25m loan from Australia and New Zealand Bank for its expansion plans.

Jeremy Grant, Hanoi

French luxury sales up 4.1%

A strong advance in exports helped French luxury goods makers to record a 4.1 per cent increase in sales in 1995, confirming the sector's rebound from the impact of the Gulf war and the backlash to last year's French nuclear tests.

The 78 member companies of the Colbert Committee – in fashion, perfume, champagne, cognac, jewellery and leather – yesterday reported a combined turnover of FFr34.7bn ($6.7bn), compared with an adjusted figure of FFr33.3bn in 1994. Exports rose 6 per cent to FFr26bn – accounting for more than three-quarters of overall sales. Nearly half of these exports – FFr12bn – went to the Asia Pacific region, with Japan accounting for FFr6bn.

David Owen, Paris

Ecuador agrees to pipeline deal

The Ecuadorean government has reached agreement with Arco and Agip Petroleum over the construction of a 105-mile oil pipeline in the Amazon region. The pipeline, to be constructed by the French-US consortium, will take 160m barrels of crude oil over the next 20 years from the Villano oil field, where substantial reserves have been discovered. The pipeline will have a capacity of 80,000 barrels per day and is expected to be in operation by 1999. The deal comes after a $600m proposal to expand the Transecuadorean Pipeline, which pumps oil across the Andes to the Pacific coast, was halted by labour and congressional opposition, costing the jobs of two energy ministers.

Raymond Colitt, Caracas

■ Bombardier, the Canadian transport equipment group, will build 120 diesel train units worth C$341m (US$250m) for Deutsche Bahn, with deliveries beginning in 1998. The regional and suburban train units will be built by its subsidiary, Waggonfabrik Talbot, in Aachen.

Robert Gibbens, Montreal

■ Atlantic Richfield has reached agreement with the government of Qatar for a consortium including British Gas and Wintershall to develop the Al Rayyan oil field in the Arabian Gulf. Arco said the field was expected to start crude oil production in September, with an output of about 35,000 barrels a day. Arco said it has also received approval for a delineation well in a possible southern extension of the Al Rayyan field.

AFX, London

Boeing 'still in running' for China jet deal

By Michael Skapinker, Aerospace Correspondent

Boeing of the US says it has not given up hope of being China's partner in the development of a 100-seat jet.

But if it is excluded, it may join other Asian countries, including South Korea, in building a new aircraft.

Mr Philip Condit, Boeing's chief executive, conceded in an interview that a preliminary agreement between China and a European consortium to develop a 100-seater, signed in April, was a setback. However, he denied that Boeing had admitted defeat. "Aircraft development programmes frequently take many turns," he said.

Boeing has suffered in recent months from tension between the US and Chinese governments over human rights violations in China.

Mr Li Peng, the Chinese prime minister, has said Beijing will favour European companies over US competitors as a reward for European governments' "more lenient" policies.

Earlier this year, China ordered aircraft worth $1.5bn from Airbus Industrie, the European manufacturing consortium. Aviation Industries of China (Avic) also signed an agreement with Aero International Regional (Air), which is owned by Aérospatiale of France, British Aerospace and Alenia of Italy, to work on the 100-seater.

The Chinese said, however, that they had not yet made a final decision on a partner for the 100-seater. They also indicated that if the Europeans were chosen, they would like Airbus to co-ordinate the project.

Senior Airbus executives agree it is too early to say that Boeing is out of the running to partner the Chinese.

Mr Condit said, however, that there would have to be a "normalisation" of US-China trading relations if Boeing were to win aircraft orders.

He was opposed to the US alone linking trade to human rights in China. He said: "Human rights anywhere in the world are important.

"But if sanctions are used on a multilateral basis, they are far more effective in producing the desired result than unilateral actions."

If China did choose European partners for the 100-seater, Boeing might develop a jet with another Asian country.

China had originally proposed including South Korea in the project, but the two countries have fallen out over where the jet should be assembled.

Mr Condit said Boeing could build a new jet with a Korean partner. However, Korea was only one option available. The company could also work with companies in Japan, India or Indonesia.

Main points of the deal

☐ The free-trade agreement between Chile and Mercosur sets a timetable of eight years, starting on October 1 1996, to reach zero tariffs on most trade.

☐ On the bulk of goods, Chile will cut its tariff from 11 per cent to 8 per cent, while Mercosur will reduce average tariffs to the same level. Chile says about 50 per cent of its exports will fall into this category, and 63 per cent of Mercosur's. Over eight years, tariffs will be reduced progressively to zero.

☐ Two categories of "sensitive" and "extra sensitive" goods will be protected over 10 years. These include products such as poultry, chocolate, textiles, shoes and oil and gas.

☐ A fourth list of mainly farm goods will keep current tariffs unchanged until year 10, and then reduce them over five years. Wheat and wheat flour will be exempted until year 18.

☐ The agreement also maintains special conditions for certain products in specific markets, which were previously covered by bilateral and multilateral accords. In these cases, quotas will be set in each market.

Jilted Chile hitches up to Mercosur

When Chile's President Eduardo Frei cements his country's wedlock with the four-nation Mercosur customs union today, he may take a moment to consider what might have been.

Chile's first choice of bride had been the glamorous North American Free Trade Agreement – and a future relationship remains possible – but continual stalling by Washington prompted Santiago to hitch up instead with Mercosur, the familiar girl next door.

The Mercosur customs union, formally founded in January 1995 by Argentina, Brazil, Paraguay and Uruguay, had been courting Chile for some time. But it was quickly determined that full membership would be impossible, given the difficulty of reconciling Mercosur's varied external tariff with Chile's uniform 11 per cent import duty. Instead, negotiators began hammering out the details of "associate membership".

Under today's accord, reached after nearly two years, Chile will join an extended Mercosur free-trade zone, but will continue to act unilaterally in trade arrangements with third countries. Both sides will from October 1 cut tariffs between them to an average 6 per cent on most imports and will, with some exceptions, gradually reduce these to zero over eight years.

Chile's main concern during negotiations was to protect its traditional farming sector, weaker than Argentina's, but a powerful voice in Santiago. Originally, Chile had wanted farm goods such as wheat, meat and dairy products to be permanently excluded, but it eventually agreed to move towards free trade in these products over 10 to 18 years.

For Chilean manufacturers of products such as tomato paste, wine, shoes and textiles, a Mercosur deal was regarded as vital to preserve access to the bloc's 200m consumers. Preferential tariffs extended to Chile before Mercosur came into effect have been periodically renewed, but were due to expire unless a permanent accord could be struck.

Not only trade was at stake. Many Chilean businesses, looking for opportunities beyond their own restricted market, have made large direct investments in the region, in private pension funds, banking, retail, wine and, especially, in Argentina's privatised electricity sector. Far bigger opportunities beckon in Brazil.

"If the world were organised as it should be, perhaps it would be enough to take the simple decision to open one's economy unilaterally," says Mr Carlos Mladinic, Chile's chief negotiator with Mercosur. But small countries, standing alone, tend to have their rights trampled by bigger ones, he says.

From Mercosur's perspective, getting Chile on board goes far beyond the limited commercial advantages of incorporating 14m more consumers. Fundamental was bridging what Mr Klaus Schwab, president of the World Economic Forum, calls the "missing link" between Mercosur and Asia.

"Mercosur now has access to the Pacific ocean and Chile has access to the Atlantic ocean," says Mr Jorge Campbell, Argentina's secretary of international economic relations. "This accord has united us in a bi-oceanic bloc."

Big investments will be needed to upgrade road networks before Mercosur's new-found access to Pacific ports becomes cost-effective. But creating such an export corridor provides "extraordinary potential" for Mercosur producers, especially farmers, says Mr Luiz Felipe Lampreia, Brazil's foreign minister. With one of the world's richest agricultural belts, Mercosur's farmers are uniquely placed to meet fast-growing demand for food in Asia, he says.

Chile's incorporation also lends a certain gravitas to Mercosur, bringing into the bloc the region's most stable and successful economy. In this respect, the accord is a coup for Brazil and its vision of a possible hemispheric free trade zone. Brazil wants a South American free trade zone in place before negotiations start with Nafta countries, while many in the US has seen an expanding Nafta as the basis for hemispheric free trade.

The deal with Chile should pave the way for a swift accord with Bolivia, and subsequently Venezuela, says Mr Lampreia. Peru, Colombia and other South American states could quickly follow. From there, it might only be a relatively short step to forge links with other regional trade groupings.

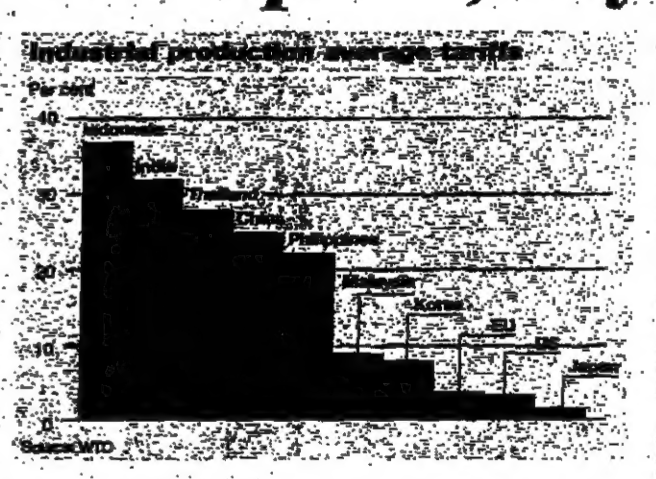
Mercosur aspires to be an outward-looking free-trade zone, not a fortress. "It's not our intention to create a closed bloc," says Mr Pedro Malan, Brazil's finance minister. "We don't see any contradiction between our strengthening Mercosur and our desire to open up to the rest of the world."

David Pilling and Imogen Mark

East Asian countries competing unfairly on exports, says study

By Guy de Jonquières

East Asian economies are competing unfairly by pursuing export drives which depend on maintaining extensive restrictions on imports and inward direct investment in their own markets, according to a study* by the Federation of Swedish Industries.



The study says barriers in east Asia, though often permissible under world trade rules, are distorting local economies and international trade, while impeding expansion by European companies in some of the world's fastest-growing economies.

"Instead of being based on natural competitive advantage, many exports from newly industrialising countries are based on artificial competitive advantages in the form of subsidies and tariff and non-tariff protection to enhance export-oriented production based on a protected domestic market," the study says.

"Imports are usually concentrated on necessary capital equipment and raw materials used in the new export industries. In the long run this leads to an unbalanced industrial structure which is unsustainable in an open market environment."

The hard-hitting study lists many specific alleged barriers in the region. It is particularly striking because the federation, which strongly supports free trade, has not in the past been in the forefront of European groups accusing Asian countries of unfair trade practices.

The federation calls on the European Union to press Asian governments more forcefully, in the World Trade Organisation and in the recently-launched Asia-Europe dialogue, to end discrimination by embracing fairer, more open and transparent policies.

The study is published a month before senior Asian and European officials are due to meet in Brussels to discuss closer economic co-operation and the agenda for the WTO's ministerial conference in Singapore at the end of the year.

The study is based on a detailed analysis of government policies and markets in China, Malaysia and Indonesia, and of the experiences of leading Swedish companies with operations in the three countries and other parts of Asia.

It says the world trade system is being challenged by the "Asian way" of regulation and business practices, pioneered by Japan, and now being followed in China, South Korea and parts of south-east Asia.

It resulted in the build-up of large trade surpluses by countries which observed the letter of international trade rules but circumvented their spirit by relying on a variety of non-tariff barriers.

The study says the barriers included "administrative guidance" of industry by governments, legal uncertainty, denial of trading rights to foreign companies, import quotas, discriminatory technical standards and preferential government procurement.

It also calls on Asian countries to simplify customs procedures, treat foreign investment more fairly, liberalise trade in services and enforce intellectual property rights more effectively.

* *Market access in high-growth Asian markets. Federation of Swedish Industries, PO Box 5501, 114 85, Stockholm. Tel: 468-783 0000. Fax: 662 3595.*

Washington will push at summit for transitional pact with Tokyo

US expected to raise chips at G7

By Nancy Dunne in Washington

Japan's rejection of a US proposal for a transitional agreement governing semiconductor trade is expected to be raised by the US at the summit of Group of Seven industrialised nations in Lyons on Thursday.

The current US-Japan semiconductor arrangement is due to expire on July 31. The pact is considered an example of "managed trade" because it set a target – in this case 20 per cent – for foreign market share in Japan, and the Tokyo government played a major role in boosting imports.

In Washington last week, Mr Yoshihiro Sakamoto, vice-minister of the Ministry of International Trade and Industry, said government involvement was no longer needed in an industry which was increasingly global.

The two sides remain far apart, but it is virtually impossible for the US to initiate a new market access complaint under US law or World Trade Organisation rules because foreign market share has soared above 30 per cent under the current agreement.

The transitional pact, proposed by the US, would continue close technical co-operation and design-in activities between US and Japanese industries. It would retain only a limited role for government, which would continue to receive sales data and monitor market share. No numerical targets would be set.

"Our goal remains as it has been: to preserve and continue the success made under the current arrangement, expand our co-operation and to build a bridge to the point where no government involvement in this sector is necessary at all," a US trade official said.

There has not been enough progress on market access in the vehicle sector and in video games. "We don't want to return to the conflict that characterised this sector before the semiconductor agreement, but want one that would reflect the changed conditions in the sector."

Japan has proposed continued co-operation between the US and Japanese private sectors with government no longer collecting data and calculating market share. It has also tabled a plan to establish a governmental World Semiconductor Council which would include the EU, perhaps South Korea, and later on other manufacturing countries.

The council would address issues such as standardisation, intellectual property protection and environmental measures.

The US official welcomed Japan's "movement from an absolutist position that no government role is necessary", but said the proposed world council would not address US concerns about maintaining and continuing market access in Japan.

The EU has for a long time been a critic of the bilateral deal, but has also asked to join the pact. The US transitional proposal calls for "participation of like-minded third parties". However, it also stipulates that countries which join must "have eliminated or made firm commitments to eliminate expeditiously tariffs and other impediments to market access for semiconductors". The EU has yet to eliminate its tariffs on semiconductors.

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Profit and dividend remittances may be as big a problem as country's $107bn debt

China pressed to boost tax to aid growth

By Peter Montagnon, Asia Editor, in London

China needs to raise government revenue collection by 6 percentage points of gross domestic product if it is to finance the infrastructure and social spending needed to maintain its present high growth rates, a senior World Bank official said in London yesterday.

Government spending on health, education, the infrastructure and poverty alleviation is seriously under-funded because of low tax revenues, Mr Nicholas Hope, the bank's director responsible for China and Mongolia, told a conference organised by the Royal Institute of International Affairs. Fiscal revenues fell to only 11.3 per cent of gross domestic product last year from 12.4 per cent in 1994 despite tax reforms introduced in January 1994 which were designed to improve collection, he said.

This also left the government short of money to meet contingent liabilities like pension fund obligations, unemployment payments and redundancy payments.

Improving public finance is the key to economic reform in China, he said. The World Bank estimated that the government could raise the extra revenues required through a combination of measures including: increases in value-added tax and income tax, merger of the domestic and foreign enterprise tax which would close loopholes, a payroll tax and taxes on polluters.

Mr Hope said that China's heavy reliance on foreign direct investment would burden its current account with outward remittances of profits and dividends. Analysts who worried about the growth in China's $107bn foreign debt overlooked this factor in their calculations.

"The service flows on direct investment may be a much greater problem for China than debt."

But he said the Chinese authorities were aware of this mounting burden which was one reason why they had allowed reserves to rise to more than $80bn. Given capital inflows, the country's situation was still perfectly comfortable, he said, and service payments on foreign investment should not affect progress towards current account convertibility.

Mr Rajiv Lall, head of Asian economic research at Morgan Stanley, said Hong Kong investors were making a return of some 25 per cent on their direct investment in China, which increased by some $42bn over the past two years.

This implied large repatriation flows which could eventually become a risk for the current account, though much depended on how much of the return was in the form of capital appreciation and how much profit was actually remitted.

Some economists have speculated that the large "errors and omissions" debit in China's balance of payments figures, amounting to $16.6bn last year, reflect profit remittances of foreign investors. That would mean China's current account surplus was in reality sharply lower than the 2 per cent of GDP reported for 1995.

Separately Mr Gang Yi, deputy director of Beijing university's China centre for economic research, told the conference that foreign trade accounted for 40 per cent of China's gross national product, much more than Japan at 18 per cent and the US at 18.5 per cent. This suggests its GNP figures are under-stated, he said.

Contracts delay urged on HK$75bn rail link

By John Ridding in Hong Kong

The Hong Kong government yesterday called on the Kowloon-Canton Railway Corporation to delay the award of consulting contracts for a HK$75bn (US$9.7bn) railway project for the territory.

The move followed criticism of the high cost from democratic and pro-Beijing politicians and confirmed that the rail link, to be built on the western side of the Kowloon peninsula, will not be completed by the original target date of 2001.

Mr Paul Leung, acting transport secretary, stressed the government remained committed to the project. But he said the time required to complete land acquisition, which would push completion beyond 2001, meant the government-owned KCRC should not proceed with the award of non-essential consultancy work.

Studies should be limited to those essential to minimise the requirements for land purchases and clearance, Mr Leung added. A preliminary estimate by the government's Lands Department concluded this process would take about five years.

China has offered to send its leaders to the rebel island of Taiwan, in the first official response to a proposal by President Lee Teng-hui of Taiwan to visit the mainland, Reuter reports from Beijing.

In an interview on the front page of the official People's Daily, the party's Taiwan affairs office responded formally for the first time to Mr Lee's offer in his May 20 inauguration speech to embark on a "journey of peace" to China.

The article repeated China's stand that Mr Lee was welcome to visit in his capacity as chairman of Taiwan's Nationalist party, but not as state president.

"We are also ready to accept invitations from the Taiwan side to visit Taiwan," he said.

Beijing has regarded Taiwan as a rebel province, not entitled to a state government or to international recognition, since the nationalists fled there after losing China's civil war in 1949.

It has been enraged by Mr Lee's pursuit of "pragmatic diplomacy" – or unofficial visits to countries with which Taipei has no diplomatic ties that are intended to raise the island's international profile.

Patten: 'We've been keeping the Chinese side informed. We'll let them know what the plans are' AP

Pro-Chinese politicians and newspapers have accused the territory's government of a lack of transparency and of failing to curb costs, prompting comparisons with the protracted, but now resolved, dispute over the building of Hong Kong's new airport.

"The government's approval of the KCRC's camouflaged methods of building the Western Corridor Railway is clearly a method to bankrupt Hong Kong before 1997," the pro-China daily Wen Wei Po, said, referring to the territory's return to Chinese sovereignty next year. It attacked the KCRC for the high cost of consultancy fees, estimated at HK$750m.

Hong Kong's governor, Mr Chris Patten, yesterday dismissed criticisms of the handling of the project. "We've been keeping the Chinese side informed and obviously we'll let them know what the plans and the proposals are," he said.

The main decisions on the issue would be taken by the post-1997 administration and the chief executive who will succeed him, he added. "What I want to ensure is that the chief executive and the administration are in the best position to take the most sensible decisions."

Mr Kevin Hyde, KCRC chairman, said the corporation would hold further talks with the government on working out a new timetable for the railway. However, the consultancy studies would certainly be required at some stage. "That work has to be undertaken. It is money that has to be spent," he said.

● The last session of Hong Kong's Legislative Council before the handover to China is set for June 25 1997, the earliest closure in recent years, according to Mr Andrew Wong, president of the legislature.

The timing is expected to prompt controversy, with some legislators arguing it helps China in its decision to replace the legislature before the completion of its four-year term.

Beijing's decision to replace the Legislative Council, which was elected last year, is proving the most serious and intractable problem ahead of the transfer. Britain and the Hong Kong government have fiercely criticised China's plan to set up a provisional legislature.

LegCo usually sits into July, which had raised the prospect of a clash over its replacement when China resumes sovereignty on July 1 next year. Mr Wong, responsible for the timing of the LegCo sessions, declined to comment on the reasons for the proposed June 25 closure until an official announcement is made.

ASIA-PACIFIC NEWS DIGEST

Rao's party in push for revival

India's Congress party, mauled in recent general elections, made its first tactical move towards revival yesterday by announcing an alliance with the low-caste Bahujan Samaj party to contest forthcoming state elections in Uttar Pradesh, the country's most populous state. Mr P. Narasimha Rao, former Congress prime minister, announced the deal with Mr Kanshi Ram, leader of the BSP, which won 11 seats in the 545-seat parliament and largely represents Dalits, once known as "untouchables". Mr Rao said the alliance "could lead to a larger picture", but was so far limited to the expected autumn poll in the state.

In the recent elections, Congress' vote there slumped to 8 per cent from 18 per cent, returning five Congress MPs among the state's 85. The BSP has won a consistent 20 per cent of the state's vote. The emergence of the BSP, along with other caste-based parties, has drained the traditional support of Congress in north Indian "Hindi belt" states; the alliance is an attempt to recreate Congress's traditional base.

It is aimed at forestalling a victory for the Hindu nationalist Bharatiya Janata party in the state, governed from New Delhi under "president's rule" since the fall of the last state government last autumn – an ill-fated alliance between the BSP and the BJP. Mr Rao faces a rising challenge for leadership of the Congress party, which with 40 seats and 28 per cent of the vote, suffered its worst post-independence showing in the recent polls. *Mark Nicholson, Bombay*

Indonesia airline to be sold off

Indonesia's state-owned airline Garuda will be privatised in 1998 after restructuring its finances, Mr Soepandi, the company's president, said yesterday. "Garuda will enter the domestic stock markets in 1998 after restructuring its capital and organisation," he told the official Antara news agency. This latest statement of intent comes after one of Garuda's six DC-10s crashed in Fukuoka, Japan, on June 13, killing three passengers and injuring 110.

Plans had been in hand to privatise the national carrier by 1997 but Garuda officials said last year the privatisation schedule depended on how soon operations were restructured. The government has said it would pay off Garuda's debts for buying nine aircraft, which would be converted to government-held equity in the company. Garuda has nine aircraft on order from Boeing of the US – seven 737-400s and two 747-400s. *Manuela Saragosa, Jakarta*

Financial scandal hits Nepal

Nepal has ordered the arrest of 100 people suspected of involvement in one of the Himalayan kingdom's biggest financial scandals, state media said yesterday. Government investigators have asked police to arrest the suspects for questioning over the Rs2bn ($35.7m) scandal. Earlier this month, authorities said a government-appointed panel investigating alleged fake letters of credit had named 176 business houses and commercial banks suspected of involvement.

Foreign currency worth Rs2bn had been sent out of the country in the form of payment for fake letters of credit without any goods actually being imported, they added. The transactions had resulted in a revenue loss of Rs510m to the government.

"The deflection of a huge amount of foreign exchange has caused a massive loss to the country," the finance ministry said. The scandal has provoked an outcry ahead of the reconvening of parliament tomorrow. Officials declined to name individuals or business houses accused, but said some banks were allegedly involved in breaking rules in opening letters of credit. *Reuter, Kathmandu*

Pakistan riots leave three dead

Troops were called to help police after at least three demonstrators were killed and scores of others belonging to Pakistan's Jamaat-i-Islami fundamentalist political group were either injured or arrested in Rawalpindi, outside Islamabad, yesterday. The clashes occurred during a protest against alleged government corruption and tough new tax measures announced in the June 13 budget.

Mr Qazi Hussain Ahmed, head of Jamaat-i-Islami, condemned what he called the "high-handedness" of police and called for another day of protest across Pakistan today to mourn yesterday's fatalities. Analysts say the protest may trigger fresh political trouble for the government, widely criticised for the recent tough tax measures. The government says it is under pressure to increase tax revenues so it can lower the budget deficit to conform with IMF-agreed limits. *Farhan Bokhari, Islamabad*

Deposed leader plans to sue Indonesian minister

By Manuela Saragosa in Jakarta

Ms Megawati Sukarnoputri, deposed at the weekend as leader of the opposition Indonesian Democratic party, plans to sue the country's interior minister, who she claims engineered her downfall by sanctioning an illegal rival PDI congress.

Mr Yogie Suardi Memet, the interior minister, legally endorsed the alternative congress.

It is believed the government was concerned at Ms Megawati's popularity in the run-up to next year's general elections. She is the daughter of Indonesia's charismatic founding president, Sukarno.

Ms Megawati's supporters have pledged not to vacate the party's headquarters in Jakarta, which was the scene last week of some of the worst rioting in Indonesia in recent years.

Her backers have also encouraged her to stand against President Suharto at the next presidential elections in 1998.

Mr Suharto has never been challenged in a presidential poll and is widely expected to run for a seventh five-year term.

Dissident members of the PDI, a party that has never been strong enough to threaten Mr Suharto's position, elected Surjadi, a deputy speaker of Indonesia's parliament, as party chief at the congress, which ended on Saturday in the north Sumatran city of Medan.

Ms Megawati told more than 3,000 supporters on Sunday that the rebel congress was not valid and she would not leave the party's headquarters. "I am the chairman of the executive board of the PDI, which is legal and constitutional for the 1993-1998 period," she said.

Over the weekend, her supporters staged peaceful demonstrations and marches in the capital and other parts of the archipelago, notably in central Java.

Mr Surjadi said he was "concerned" at the potential for further violence. People were still "very emotional" but he hoped that talks would take place "after a cooling down period".

Some political analysts are not optimistic. Although Ms Megawati has effectively been ousted from the formal structure of Indonesia's political institutions – the PDI and the Moslem-based United Development party are the only political parties allowed outside the ruling Golkar party – she is expected to remain politically active and this may lead to further clashes.

Diplomats in Jakarta said that by bringing the case to court, political tensions surrounding her removal are set to continue. "This could be a long, drawn-out affair," said one western diplomat.

In Thailand, the companies are migrating to the people

Ted Bardacke spots a trend that could save jobs moving abroad

Clocking-off time at a textile factory on the outskirts of Bangkok is not a pretty sight. Hundreds of young women, mostly migrants from rural Thailand, emerge from a windowless complex to cross a canal that reeks of sewage and industrial waste. Squinting into a sunset enhanced by traffic smog, the workers dart across a 10-lane highway to makeshift boarding houses or to catch rickety third-class buses.

In the shadows, natty men lurk with offers of steady night-time employment for the youngest and prettiest of the women. Soon, more may succumb: as urban Thai labour costs rise, reputable but low-skill jobs are in danger of being forever lost to cheaper sites in Indonesia, Vietnam and China.

But some footwear and clothing companies are finding that abandoning the wretchedness of Bangkok does not mean giving up the advantages of Thailand, with its fast-growing domestic market and ample export-oriented infrastructure. Instead of moving overseas, these companies are shifting production to rural Thailand, where they are setting up small assembly lines in many of the same impoverished villages that nourished their deep pool of migrant labourers.

Getting these industries to leave Bangkok but stay in Thailand is an important task. Textiles and shoes accounted for 17 per cent of all manufacturing exports in 1995. Relocating these industries to rural areas is a way of keeping a significant number of low-wage but export-generating jobs in the country when the urban Thai economy is in uneven transition to higher-skill and value-added industries.

While Bangkok will hardly notice the loss of a few assembly operations, the impact on the villages is tremendous. More young women are staying in their home villages, keeping families intact and in some cases using their wages as seed capital for expanding agricultural production.

Companies which have relocated, including those producing brand-name shoes for the likes of Bata, Nike and Dr Scholl and shirts for such European brands as Ben Sherman and Tom Taylor are finding that small-scale rural assembly can be more efficient and profitable than huge urban factories, largely because they solve a perennial problem in Thai industry: labour turnover.

> The rural operations have lower labour turnover

At a Bata shoe factory started up six months ago in Buriram province near the border with Cambodia, all 163 workers live within 7km of the factory and routinely show up for work every day.

So far only two have quit, compared with industry averages of 10 per cent turnover a year and absenteeism rates of 8 to 10 per cent a day.

"It's not like Bangkok at all," says Mr Chaiyachat Wonglitiboral, manager of the Bata factory, which produces 3,000 pairs of school shoes a day. "Here workers don't leave and have time to become multi-skilled. So we've been able to re-engineer the whole production process and make only what we need."

About 400 of Bata's Thai workforce of 2,400 are scattered around small factories in Buriram province. Some of the most labour-intensive work – sewing shoe uppers for instance – is subcontracted out to small village collectives, where surprising innovation in manufacturing organisation is taking place.

Working on piece-rate, these collectives have organised themselves into efficient small teams each in charge of one facet of production. Bata likes the system because it requires only one supervisor for every 48 workers, compared with one for every 12 under normal factory circumstances.

"They are doing the most demanding thing in the shoe industry," says Mr Bengt Gunnarsson, managing director of Bata Thailand.

Others have taken notice. Pan Asia, one of Thailand's largest shoe manufacturers, has shelved plans to move its Nike and Marks & Spencer production to Vietnam while it tries the rural Thai approach. Using a main training centre linked with about 10 satellite collectives, Pan Asia is farming out the sewing and assembly of thousands of shoe uppers a day.

Efficiency gains offset the lower wages of production in Vietnam, says Mr Prasong Thanakornwitikul, factory manager at Buriram Pan Footwear, a Pan Asia subsidiary.

The idea of shifting production to rural areas originated with a non-governmental organisation, the Population and Community Development Association (PDA), in conjunction with students from Harvard Business School.

Mr Meechai Viravaidya, chairman of PDA and a former deputy minister of industry, says PDA's involvement is that of an "intermediary".

"Bringing rural villagers and big companies together is not easy. Someone has to be there to facilitate the relationship in the beginning," he says.

> These gains offset the cheaper labour elsewhere

Ms Woranum Nanachart, a 20-year-old with just a primary school education worked for two years in Bangkok before coming back to Buriram to get a job making cheap plastic moulds for costume jewellery exported to the US.

Now she is living at home again and hopes to invest in a mango orchard with some of her fellow workers. "It's better here because I want a family life," Ms Woranum says.

And, notes Mr Meechai, "When the girls stay home, the boys stay too."

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	279.8	–174.2	–163.0	0.7623	100.0
1986	231.0	–140.6	–153.4	0.9836	81.4
1987	220.2	–131.8	–144.1	1.1541	71.9
1988	272.5	–100.2	–107.4	1.1833	67.0
1989	330.2	–99.3	–94.3	1.1017	70.0
1990	309.0	–79.3	–72.7	1.2745	66.7
1991	340.5	–53.5	–8.0	1.2391	65.7
1992	345.9	–65.2	–47.5	1.2957	64.4
1993	397.3	–98.7	–85.4	1.1705	66.3
1994	432.3	–127.0	–125.2	1.1857	65.1
1995	452.3	–122.8	–114.6	1.2928	61.2
2nd qtr.1995	110.2	–32.4	–31.1	1.3175	59.0
3rd qtr.1995	113.0	–30.5	–28.9	1.3020	61.0
4th qtr.1995	117.7	–28.9	–23.6	1.2897	62.3
1st qtr.1996	121.2	–30.6	–28.3	1.2570	63.7
May 1995	37.4	–10.8	n.a.	1.3055	59.1
June	36.8	–10.7	n.a.	1.3192	59.0
July	35.5	–11.2	n.a.	1.3335	59.2
August	38.2	–9.6	n.a.	1.2954	61.3
September	39.4	–9.7	n.a.	1.2772	62.5
October	38.8	–9.2	n.a.	1.2977	61.9
November	39.0	–8.7	n.a.	1.2954	62.2
December	40.0	–9.1	n.a.	1.2758	62.7
January 1996	39.1	–11.5	n.a.	1.2634	63.6
February	41.2	–9.3	n.a.	1.2536	63.8
March	41.0	–9.8	n.a.	1.2541	63.8
April	42.3	–9.8	n.a.	1.2421	64.3

JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	228.2	73.5	64.5	180.50	100.0
1986	209.9	94.2	87.2	165.11	127.7
1987	194.7	83.7	75.5	166.58	138.8
1988	218.7	79.8	67.0	151.51	153.7
1989	245.5	70.6	53.4	151.87	147.0
1990	220.0	50.0	28.5	183.94	132.5
1991	247.6	83.3	62.4	166.44	143.7
1992	254.8	102.1	90.4	164.05	150.7
1993	300.0	120.8	111.1	130.31	181.0
1994	323.5	122.5	108.8	120.99	194.9
1995	331.2	104.3	86.5	121.43	204.8
2nd qtr.1995	87.5	29.1	23.4	111.31	225.3
3rd qtr.1995	81.2	25.3	22.7	122.36	203.7
4th qtr.1995	80.4	22.1	17.5	130.87	187.8
1st qtr.1996				132.82	182.0
May 1995	29.0	9.9	8.0	111.17	224.4
June	29.4	10.4	9.2	111.51	225.1
July	26.7	7.8	7.2	116.38	217.2
August	28.1	9.6	8.7	122.52	202.6
September	26.5	8.1	6.8	128.18	191.6
October	25.5	6.1	4.3	130.78	188.8
November	26.9	8.1	6.6	131.98	186.8
December	28.0	7.9	6.6	129.85	187.9
January 1996				133.43	182.1
February				132.49	182.1
March				132.84	181.9
April				133.12	180.7

GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	242.7	33.0	22.5	2.2260	100.0
1986	248.5	53.3	47.3	2.1279	108.6
1987	254.4	56.7	40.0	2.0710	114.8
1988	272.6	61.4	41.9	2.0739	114.1
1989	310.1	65.2	52.0	2.0681	113.3
1990	323.8	51.6	38.5	2.0537	118.1
1991	327.5	11.2	–16.8	2.0480	117.1
1992	330.9	16.7	–18.7	2.0187	120.6
1993	325.2	31.3	–13.4	1.9337	125.3
1994	360.0	38.0	–17.1	1.9198	125.8
1995	395.0	50.1	–13.5	1.8509	132.1
2nd qtr.1995	99.3	12.5	–0.7	1.8402	133.3
3rd qtr.1995	99.5	12.7	–6.6	1.8624	131.7
4th qtr.1995	100.7	13.0	–4.2	1.8365	132.3
1st qtr.1996	100.2	12.4	–2.4	1.8456	130.6
May 1995	32.4	3.9	–0.5	1.8420	132.9
June	34.0	4.0	0.3	1.8465	132.7
July	32.7	3.8	–3.1	1.8511	133.0
August	32.2	4.2	–2.5	1.8705	131.1
September	34.6	4.8	–1.1	1.8658	131.1
October	33.5	4.1	–2.5	1.8357	132.9
November	33.7	5.3	0.2	1.8363	132.4
December	33.6	3.6	–1.9	1.8374	131.6
January 1996	33.4	3.4	–2.1	1.8460	131.0
February	33.6	5.2	0.4	1.8377	130.8
March	33.2	3.8	–0.8	1.8528	130.1
April				1.8715	129.0

FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	133.4	–3.7	–0.2	6.7942	100.0
1986	127.1	0.0	3.0	6.7948	102.7
1987	128.3	–4.6	–3.7	6.9265	102.7
1988	141.9	–4.7	–3.4	7.0354	100.8
1989	162.9	–6.3	–3.6	7.0169	99.6
1990	170.1	–7.2	–7.2	6.9202	103.8
1991	175.4	–4.2	–4.9	6.9643	102.1
1992	182.5	4.5	2.9	6.8420	105.4
1993	179.6	13.3	8.0	6.6281	109.1
1994	199.8	12.9	5.4	6.5859	110.1
1995	221.5	16.9	12.7	6.4460	113.4
2nd qtr.1995	55.8	4.6	4.2	6.4802	113.2
3rd qtr.1995	54.8	3.1	1.0	6.4363	114.0
4th qtr.1995	58.0	4.5	2.4	6.3580	114.3
1st qtr.1996	57.5	4.9	5.6	6.3281	113.9
May 1995	18.6	1.3	0.8	6.5218	112.2
June	18.7	1.5	1.5	6.4818	113.1
July	17.6	0.7	–0.1	6.4424	114.3
August	18.6	1.3	0.7	6.4322	114.1
September	18.6	1.1	0.4	6.4344	113.7
October	18.5	1.2	0.6	6.4104	113.6
November	18.9	2.1	1.4	6.3308	114.8
December	18.6	1.2	0.4	6.3269	114.4
January 1996	19.2	1.3	2.3	6.3221	114.4
February	18.8	1.6	1.7	6.3189	113.7
March	19.7	1.9	1.6	6.3434	113.7
April				6.3489	113.9

ITALY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	103.7	–16.0	–5.4	1443.0	100.0
1986	99.4	–2.5	–1.4	1461.6	101.4
1987	100.7	–7.5	–2.1	1494.3	101.1
1988	108.3	–8.9	–8.0	1536.8	97.7
1989	127.8	–11.3	–17.0	1509.2	98.6
1990	133.6	–9.3	–18.0	1523.2	100.1
1991	137.0	–10.5	–17.7	1531.3	98.7
1992	137.9	–8.0	–21.5	1591.6	95.6
1993	144.3	17.9	9.7	1838.7	80.5
1994	160.1	18.6	13.1	1908.6	77.0
1995	177.3	21.1	20.1	2106.4	69.4
2nd qtr.1995	44.5	5.0	5.9	2198.2	66.4
3rd qtr.1995	43.5	7.1	7.1	2096.4	70.0
4th qtr.1995	47.9	6.0	5.0	2061.0	70.4
1st qtr.1996	47.8	4.8	–1.2	1976.7	73.2
May 1995	15.3	1.6	2.1	2169.8	67.4
June	16.4	1.8	2.4	2161.4	67.5
July	18.4	3.5	2.9	2146.5	68.3
August	11.3	2.0	2.2	2080.2	70.6
September	15.8	1.8	2.0	2082.6	71.0
October	16.4	2.1	2.1	2084.7	69.8
November	16.3	2.0	1.0	2064.9	70.3
December	15.2	1.9	2.0	2033.6	71.1
January 1996	13.6	0.1	–1.1	2001.4	72.4
February	16.2	2.1	1.2	1989.6	73.3
March	17.8	2.7	–1.3	1959.1	74.0
April			2.4	1944.9	74.8

UNITED KINGDOM

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	132.4	–6.7	3.8	0.5890	100.0
1986	108.3	–14.2	–1.3	0.6708	91.1
1987	112.3	–16.4	–7.1	0.7047	89.3
1988	120.9	–32.3	–25.0	0.6643	94.7
1989	137.0	–36.7	–33.5	0.6728	91.9
1990	142.3	–28.3	–28.6	0.7150	89.8
1991	147.7	–14.7	–11.7	0.7002	90.5
1992	145.9	–17.8	–13.4	0.7359	87.1
1993	156.0	–17.2	–14.2	0.7780	79.9
1994	174.1	–14.0	–2.7	0.7736	80.1
1995	186.0	–14.2	–8.1	0.8190	76.2
2nd qtr.1995	45.1	–4.0	–2.3	0.8253	75.7
3rd qtr.1995	46.8	–4.3	–2.6	0.8268	75.7
4th qtr.1995	47.4	–3.3	–2.2	0.8257	75.0
1st qtr.1996	49.2	–4.3		0.8208	75.0
May 1995	15.2	–1.2	n.a.	0.8227	75.7
June	15.3	–1.2	n.a.	0.8271	75.5
July	15.1	–1.4	n.a.	0.8359	75.1
August	15.6	–1.6	n.a.	0.8261	75.9
September	16.1	–1.3	n.a.	0.8183	76.2
October	15.4	–2.0	n.a.	0.8224	75.7
November	16.3	–0.7	n.a.	0.8291	74.8
December	15.7	–0.7	n.a.	0.8285	74.5
January 1996	16.0	–1.7	n.a.	0.8254	74.8
February	16.4	–1.6	n.a.	0.8159	75.3
March	16.8	–1.0	n.a.	0.8212	75.0
April			n.a.	0.8201	75.2

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

INDONESIA

Change is in the air

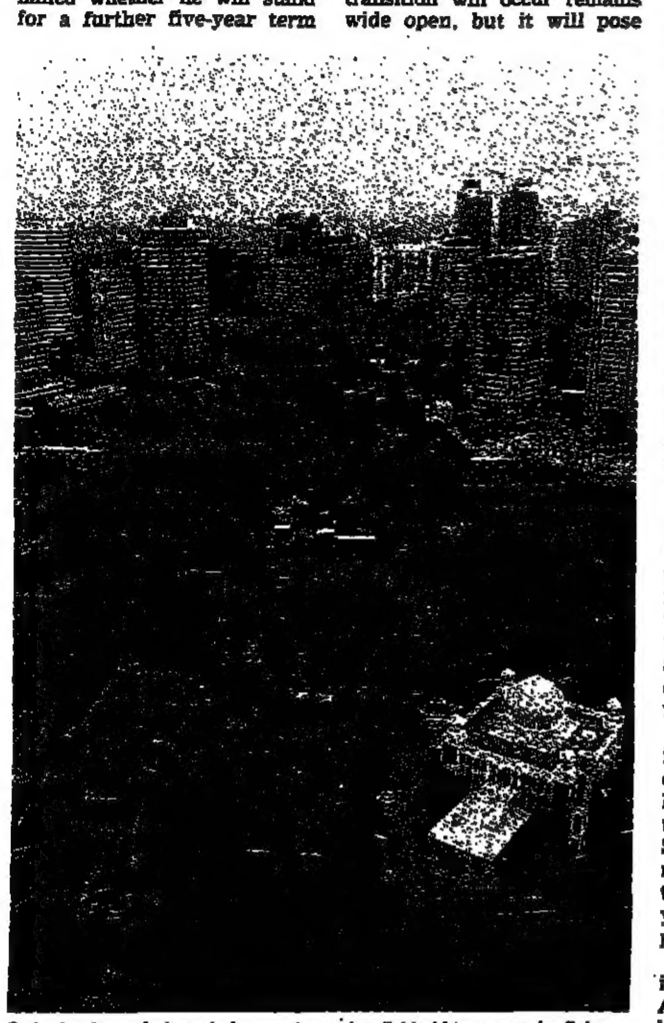
Striking economic achievements have been made, but the country still faces significant challenges in its progress up the development ladder, say Peter Montagnon and Manuela Saragosa

The sudden death of Mrs Siti Hartinah Suharto from a heart attack in April came as a rude shock to Indonesians – not because the president's wife was a particularly high-profile public figure, but because it served as a reminder that Mr Suharto, too, is mortal, and that his rule of 30-years must eventually come to an end.

Mr Suharto has still not signalled whether he will stand for a further five-year term when his mandate expires in 1998, but, even if he does, most now assume that term will be his last. Attention has already begun to focus on the otherwise trivial question of his choice of vice-president.

That person will effectively be his designated successor, and the choice may shape the country for years to come.

Quite how and when the transition will occur remains wide open, but it will pose some formidable challenges. Though they look unlikely to have any lasting impact on the political scene, last week's anti-government riots were a stark reminder that instability lurks close beneath Indonesia's surface.



Order in chaos: Indonesia is a vast country divided by race and religion

Adding to the existing policy priorities – to complete the economic deregulation under way since the late 1980s and to find jobs for a workforce that increases by some 2m each year – are other tasks if Indonesia is to move further up the development ladder.

Riddled with corruption, the country badly needs better law enforcement and a more rational approach to policy-making. Mr Suharto's eventual successor may also be expected gradually to open up politics as a newly-affluent middle class demands more self-determination. But he will need the skills to do so without upsetting the military which still guarantees Indonesia's stability.

This is not to belittle President Suharto's achievements. He will be remembered for maintaining order in a huge country, divided by race and religion. He has brought Indonesia from the ranks of the poorest to the verge of middle income status. Per capita income is now almost exactly $1,000, not much compared with South Korea or Taiwan but ahead of China and India.

Striking progress has been made in economic deregulation, first of the financial sector and more recently of the real economy. Steep cuts in tariffs have surprised many used to thinking of Indonesia as an inward looking country content to live off its abundant natural resources.

One of Mr Suharto's enduring legacies will thus be an economic modernisation that has pushed up Indonesia's sustainable growth rate. Crosby Securities recently put that rate at 8 per cent – coincidentally the figure achieved last year – compared with 6 to 7 per cent previously.

Record inflows of foreign investment bear this out. Approvals jumped to $39.1bn last year from $23.7bn in 1994 and are still growing at an annual rate of 17 per cent. Though only about half of the projects approved are ever realised, this still provides a substantial flow which will lay the groundwork for future growth.

But the prevailing mood is one of change. Dissatisfaction at Indonesia's pervasive corruption is growing. Separately there is dismay among the educated middle classes at the blatant, if perfectly legal way in which the president's children use their political connections to further their business ends.

While Indonesia begins to resemble a more modern economy, policy-making remains anything but modern. President Suharto is autocratic and his decisions often appear arbitrary. Typical is a controversial concession to his youngest son Hutomo Mandala Putra earlier this year, granting him tax breaks to manufacture a cheap national car.

The move came out of the blue and deeply upset Toyota, which manufactures the Kijang, Indonesia's most popular current model. It brought sharply worded complaints from some US companies as well as the Japanese government and the European Union who fear it conflicts with Indonesia's World Trade Organisation obligations.

Sanyoto Sastrowardoyo, Indonesia's investment minister, retorts the concession is open to any company that can meet the local content conditions. Indonesia, which spends $5bn a year on component imports needs an indigenous car industry as Asian markets open up. Besides, he says, the move has had no discernible impact on investment so far.

But international executives cite other examples of capriciousness. While tariffs have generally been falling, the government last year granted tariff protection to Chandra Asri, a petrochemical project also with connections to another of the president's sons.

More general worries about the unpredictable behaviour of the authorities are also rife: witness the recent dispute between the central bank and the police over the bank's right to order banks to block accounts where fraud is suspected. The central bank is responsible for bank supervision. But the police refused to back its request to Standard Chartered Bank to block an account containing funds which were allegedly caught up in a wire transfer fraud, and the British bank found some of its assets seized with police support.

President Suharto shares a joke with airforce chief, General Sutria Tubagus (right) and armed forces commander General Feisal Tanjung (left): the president's eventual successor may have to open up politics without upsetting the military which still guarantees Indonesia's stability

Optimists say policy decisions such as those on the national car are becoming rarer. They stand out in a more market-driven economy. But Indonesia would become a more attractive base for export-related manufacture if rules were more transparent and enforced. Much investment is designed to serve the domestic market. Despite its large market Indonesia was never in the running for GM's new Asian car plant.

Private sector capital is at last helping to upgrade Indonesia's deficient infrastructure. Two large financing deals have been signed in the last year for the Paiton power project. Telkom, the newly-privatised utility has signed a string of operating arrangements with foreign companies.

But such ventures will require large imports of capital goods and only generate rupiah returns. Indonesia has a large savings/investment gap. Its current account deficit, currently about 3.5 per cent of GDP is expected to remain wide for some time.

The deficit was easily financed last year, thanks to capital inflows which also allowed a $2.7bn increase in reserves. But it will require careful management, especially since Indonesia already has $100bn of foreign debt.

Indonesia must watch its competitiveness in the export market, but wages have been rising fast. Perhaps with a view to next year's parliamentary election, which Mr Suharto's Golkar party still seems bound to win, the minimum wage has been increased effectively by 30 per cent this year.

While there is no shortage of unskilled labour, there is a massive shortage of skills. Many of Indonesia's few accountants have migrated to the deregulated financial sector, leaving other sectors struggling to find replacements.

But perhaps the largest challenge facing Indonesia in transition will be political. Mr Goenawan Mohammad, former editor of the banned Tempo magazine, fears an explosion of tension on three fronts: racial sparked by resentment against the economically successful ethnic Chinese, religious as Islam takes a stronger hold on politics, and regional as separatists flex their muscles.

But Mr Goenawan is a noted pessimist. A common view in the business community is that affluence has given Indonesians a growing stake in stability, which will ensure the transition passes smoothly. At this stage it is anybody's guess who is right, but the risks are large.

Indonesia has had no experience of political transition for the last 30-years, and the last one was bloody and chaotic. It is not for nothing that the expression "to run amok" is an Indonesian one.

The next president will have to be a person of extraordinary stature. None of those presently in the frame appear to have the skills. But then there may be some unknown leader lurking in the wings, much as Mr Suharto himself was 30 years ago. No one would then have guessed what he was set to create.

IN THIS SURVEY

Editorial production: Sarah Murray

Politics: by Manuela Saragosa

The system starts to age

An inflexible political process is out of kilter with the aspirations of the population

In the 30 years since President Suharto took over the reins of power, the most striking, and worrying, feature of Indonesian politics is its inability to change or offer credible alternatives to the ageing president.

Despite last week's riots, the ruling Golkar party is still expected to win the parliamentary elections next year and presidential elections a year later. But the recent government-inspired attack on opposition leader Megawati Sukarnoputri has soured the atmosphere and may make the victory less decisive.

The elections will not offer real choice but that does not make them irrelevant. It is the process by which the regime reaffirms its legitimacy and as such it is crucial for Golkar to secure a large chunk of the vote.

At the last elections in 1992, Golkar won 68 per cent of the vote, down from 73 per cent the time before. Any further large slippage could tarnish the legitimacy of President Suharto's regime at a time when there is growing resentment at the length of time it has held on to power.

Less than 60 per cent of the vote would almost certainly be deemed damaging. "The system is set up in a way that [the ruling powers] will win but it has to be credible," says Mr Laksamana Sukardi, a business consultant and treasurer of the licensed opposition Indonesian Democratic Party (PDI).

Some 425 seats in the DPR – Indonesia's equivalent of parliament – will be contested with the remaining 75 allocated to the military. Complaints about the system focus more on the process itself.

Parliamentary candidates are screened by the military, a tacit Golkar supporter, which has the ultimate veto over who runs in each district. That makes it difficult for members of the only other two permitted political parties – the Islam-based development party (PPP) and the Indonesian Democratic Party (PDI) – to win seats.

Golkar, however, must still win votes and the government has been actively trying to restrict campaigning by Ms Megawati, who has headed the PDI since here election by party members in 1993. Over the past year, her public meetings have frequently been disbanded by the police and she has been barred from talking to her party representatives in various parts of the country.

Following the government's latest attack, the risk is that she may become sidelined despite her appeal as the is the daughter of the previous president. Indonesia's founding father, he was ousted by Suharto in the aftermath of the abortive 1965 coup, but is still championed by many Indonesians.

The PDI's popularity may diminish following government interference in its affairs, but public opinion is difficult to measure. Indonesia is not a homogeneous country – there are hundreds of ethnic groups and languages – and the political orientation of the population is almost impossible to assess.

Organised opposition to the government is largely an urban phenomenon although supporters of Ms Megawati within the PDI claim that "if we wanted to we could mobilise tens of millions of people to demonstrate their support for democratic principles and practices from Aceh to Irian Jaya".

"I hope I will not have to do this," Ms Megawati said recently. "Our primary concern is to do everything possible to avoid anyone getting hurt, to guarantee public order."

Nevertheless, there have been an increasing number of riots around the archipelago in the past year. Last week some 5,000 Megawati supporters clashed violently with riot police in Jakarta. Earlier this year, students rioted against an increase in public transport fares which led to at least three brutal killings by the military, on the island of Sulawesi. Some Indonesian government officials privately point to these events as evidence of eroding respect for President Suharto's regime.

Under attack: Megawati Sukarnoputri, leader of the PDI

Another measure of discontent might be the growing popularity of Islam, the religion of 90 per cent of the population. It is widely believed that President Suharto established the Moslem Intellectuals Association, or ICMI, in an attempt to co-opt the Moslem vote in response to the growing popularity of the country's largest Moslem organisation, the Nahdlatul Ulama, which claims 30m members nationally and is a threat because of its unofficial link with Ms Megawati.

Unwittingly, the government may have added to the problem by politicising religion, some observers say. ICMI's credibility has been called into question because so many of the members on its board have affiliations with Golkar.

Others point to the blatant business activities of the presidential family as a source of dissatisfaction. An attempt by a company owned by President Suharto's grandson to charge and collect a tax on beer bottles in Bali caused an unprecedented outcry from business groups in the country earlier this year.

Against this backdrop, President Suharto must decide whether he will run again at the next presidential elections. He says repeatedly that the decision is in the hands of the Consultative People's Assembly but then most of the 1,000 seats in that assembly are appointed by the president himself.

The death of his wife and close confidante earlier this year could swing the president either way. Her death has refocused the country on the issue of mortality, bringing home the age of the president himself. On the other hand, his children, whose influence over their father must not be underestimated, have obvious vested interests in keeping him in power.

President Suharto, who turned 75 at the beginning of June and has no obvious successor, is typically vague. "The most important thing for me is to complete my term until 1998," he said recently. "But you should know that I'll be 77 then and that is old."

■ **Economy:** by Peter Montagnon

Food for the optimists

Higher growth and slower domestic demand is good news for the country's prospects

Quite a lot has been going right for the Indonesian economy this year.

The yen has weakened against the US dollar, easing fears for Indonesia's $100bn foreign debt, much of which is denominated in Japanese currency. The oil price has risen which should help strengthen the balance of trade. At home, fears that the economy was overheating have abated as consumption has slowed.

As a result economists are more sanguine about the outlook compared with last year. That began with the rupiah under pressure in the wake of the Mexican economic crisis and ended with concern over a sudden surge of imports.

Led by domestic demand, economic growth rose to 8.1 per cent last year from 7.5 per cent in 1994. But inflation eased only slightly to 9 per cent from 9.6. This was still the fifth year out of the last six in which it has been close to double digits, the World Bank warns in its latest economic report.

The good news, economists say, is that the economy can sustain a higher rate of growth following the deregulation introduced in the past few years. According to Eugene Galbraith, president of stockbrokers HG Asia Indonesia, growth is a couple of percentage points higher than it would otherwise be because of deregulation.

The bad news is that there is still excess liquidity in the money markets, built up as a result of capital inflows, while expectations of a continuing large deficit in the current account balance of payments will leave Indonesia vulnerable to external shocks. Indonesia will still require careful economic management.

For the time being there is a sense of quiet satisfaction at the way domestic demand seems to be levelling out. Car sales, which rose 18 per cent last year after a 53 per rise in 1994 are now falling.

Some analysts say that would-be purchasers are simply waiting for the arrival of the new cheap national car which is due to be launched later this year by Timor Putra Nusantara, a company owned by one of the president's sons. But sluggish sales in department stores bear out suggestions of a more general slowdown in consumption.

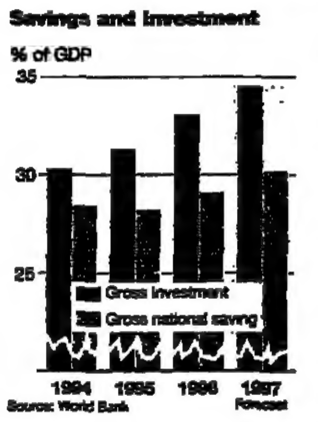
So does the trend in imports. These grew at a year-on-year rate of 35 per cent in the third quarter of last year, but actually fell 4 per cent in the year to February. Loan growth at banks has also eased slightly to 23.6 per cent in March from 26 per cent in the third quarter of last year, thanks to pressures from Bank Indonesia.

But the rate of growth of M2 money supply showed no signs of falling and was still stuck at stubbornly high rate of 28 per cent. Indonesia has an open capital account and a policy of maintaining a fixed real exchange rate, though the central bank did again widen the fluctuation bands for the rupiah last month from 3 per cent to 5 per cent. This leaves it with few levers for monetary policy, say some economists.

Indeed, the World Bank has been urging the government to let fiscal policy take more of the strain. Indonesia is already supposed by law to run a balanced budget, the reason being that government ministers would find spending impossible to control if they were allowed to borrow in the domestic capital market.

The World Bank says Indonesia ought to be running fiscal surpluses and should use the money to pay down some of the country's $100bn foreign debt. Government revenues could be raised, it says, by increasing petrol and electricity prices and raising forestry royalties and spending could be reduced in areas where the private sector now plays an important role, such as telephones and power generation.

Savings and investment



Source: World Bank

Tunky Ariwibowo, trade and industry minister: imports have slowed

The government is in no hurry to adopt these recommendations, but there is general acceptance of the fact that large private sector investment over the next few years will cause the current account balance of payments gap to remain wide. The deficit for the fiscal year to end March, estimated at between $7bn and $8bn, was easily financed, but the task of managing the external accounts will be a challenge for the authorities in the medium term.

Some economists say that the expected deficits will be perfectly manageable. Mr Galbraith says that at its peak in 1998, the deficit will only be 4 to 4.5 per cent of GDP, but other economists point out that much of the new investment in infrastructure will involve imports of capital equipment but earn no foreign exchange. "It's not so easy when you're starting off with a foreign debt of $100bn," says William Keeling, a representative of Kleinwort Benson.

An important indicator will be Indonesia's ability to maintain non-oil exports, currently running at some 10 to 15 per cent annually. For the time being traders report good demand for Indonesian goods, including those from China, which has been taking growing volumes of Indonesian textile and wood pulp products.

But there is lingering concern over the rate of wage increases. Last year's minimum wage increase of 10 per cent translates into 30 per cent when various additional payments are factored in. "We have been giving away our own comparative advantage," says Mr Sjahrir of the Ecfin consultancy house.

■ **Stock markets:** by Peter Montagnon

Brisk business on the bourse

While the market lacks discipline, free-wheeling flair has helped its rapid development

No doubt London's stock brokers will congratulate themselves on the introduction of the Crest paperless trading system this summer. But if they pause to consider Indonesia's example, they might find the champagne suddenly tastes rather flat.

While London has been grappling for years with the controversial issue of automation, Indonesia's much smaller exchange is already well ahead. It has had computerised dealing for more than a year and settlement, currently four days after a trade has taken place, is faster than London, which has only recently been able to settle trades five days after a deal has been struck.

This is but one example of the pace at which Indonesia's stock market is developing. Though it is still a long way short of maturity, brokers say it is starting to reap the benefit of a conscious decision by the authorities to develop equity trading as a means of harnessing domestic savings.

Capitalisation of the Jakarta Stock Exchange has more than quadrupled since 1992 to $86bn at the end of April this year. During the same period, the number of listed companies jumped to 238 from 155 and average daily turnover to $140m from $56m. Indonesia's stock market may still lag behind those of Malaysia and Thailand in size, but it is showing signs of catching up.

Corporate earnings have been buoyant since interest rates peaked in 1993, and large privatisation issues such as Indosat and Telkom have added liquidity. As a result, investors are starting to take the market more seriously. "Foreign fund managers have become a lot more positive," says James Spence of brokers W.I.Carr.

With loan growth at banks constrained by the authorities, some of the surplus liquidity in Indonesia's money markets has also found its way into equities. Indeed, the increasing participation of domestic investors has been one of the features of 1996 to date. Local investors account for 40 to 60 per cent of turnover, whereas foreigners previously accounted for 70 per cent, says Michael Chambers of GK Goh Ometraco.

This trend has been helped by an increasing willingness of brokers to extend credit to clients so that they can trade on margin. Most domestic investors are still retail buyers even though they trade in larger lots than their western counterparts.

Domestic institutions, by contrast, still prefer to play safe and place their money with banks. "It has to be a very good stock market to beat returns on relatively risk-free deposits," says Mr Spence.

The result is that, with a handful of exceptions such as Telkom, there are still few shares actively traded by both foreign investors, who tend to be institutions, and domestic investors, who are retail operators.

Mr Chambers says retail buyers tend to be speculative and unsophisticated in their choice of shares. They also prefer issues which are cheap in absolute terms. Liquidity in some stocks is low so they can swing violently even on small turnover, he says citing the case of Modern Photo which has fluctuated between Rp15,000 and Rp10,000 over the past six months.

Only when domestic institutions flourish will the market acquire real depth. Despite talk of banks being allowed to own equities and plans to launch open-ended mutual funds, the absence of domestic institutions remains a handicap.

Catching up fast: the Jakarta stock exchange Reuter

Some aspects of regulation also need to be tightened, brokers say. There is still little discipline on corporate disclosure. Profit figures tend to leak out early. Although companies have to produce quarterly reports, scrutinised by a growing army of analysts, auditing controls are weak.

The computerised trading system has given the authorities the means of tracing trades and investigating market manipulation, but they have not been consistent in following this through. "It is not so much a question of the regulations, but the way in which they are enforced," says Gene Galbraith of HG Asia.

The market may thus have a way to go before it matures, but with capitalisation heading towards $100bn, the old pioneering feel is beginning to wane.

That leaves some brokers wondering whether the market might eventually become duller as well as more efficient. Behind much of Indonesia's corporate earnings is the free-wheeling flair of large, mostly Chinese entrepreneurs. Too much emphasis on corporate governance would cramp their style.

■ **Banking:** by Peter Montagnon

Clean-up long overdue

Renewed efforts are being made to sort out bad debts and strengthen rules to avert new problems

There is a curious irony in Indonesia's plan to float a state-owned bank as its next privatisation. It will be even more piquant if the exercise goes well, unlike last November's flotation of Telkom, the telephone company, which had to be cut sharply in size and sold at a knock-down price.

For while telecoms is one of Indonesia's more dynamic sectors with rapid growth prospects, banking is hardly a showcase industry.

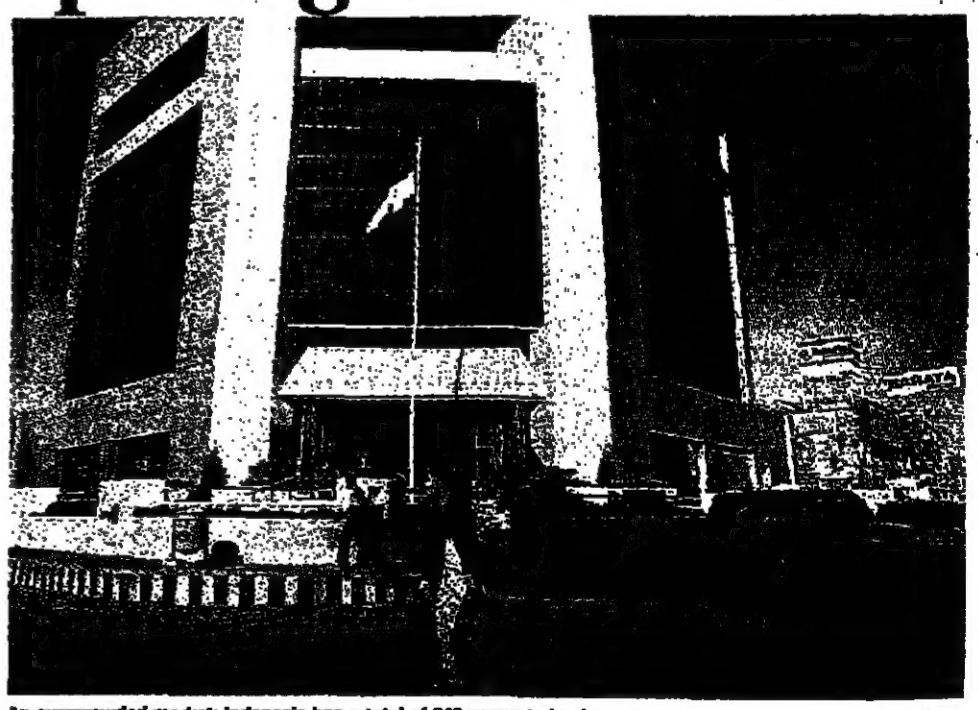
With a total of 240 separate banks the market is overcrowded and badly in need of consolidation. Worse still is the heavy concentration of bad debts, with 10 per cent of lending classified as bad or doubtful at the end of last year. There is also an unhealthy tendency among private sector banks to lend to the industrial groups that own them.

Cleaning up the banking sector is one of the larger challenges facing Indonesia as it seeks to build on the policy of industrial and economic deregulation in force for the past couple of years. But in a further irony, the problems facing banks are largely the result of excesses that built up after the financial sector itself was deregulated in the late 1980s.

"A healthy financial system is a pre-requisite for a modern economy," the World Bank said in its latest report on Indonesia. It urged the authorities to accelerate planned increases in capital requirements and to enforce more strictly limits on group-related lending. It also called for state banks to receive support in the task of collecting overdue loans. Increased confidence in the financial system would reduce domestic interest rates, it said.

Thus far, the banking industry has largely managed to avoid confronting the issue by relying on a rapidly growing economy and by expanding loan volume to float it away from bad debt trouble. With high margins available on new lending, many banks can earn enough to obscure the losses on old loans.

But there has been a large accumulation of lending on property, particularly on speculative high-rise apartments, and says Laksamana Sukardi of the ReFORM consultancy, bad debts are "a ticking bomb". Now, prompted possibly by the near collapse last year of Bapindo, one of the weakest state banks, the central bank is intensifying its efforts to steer the industry towards a soft landing.



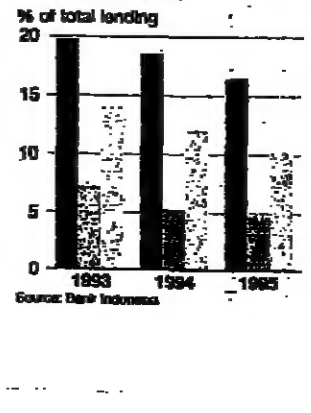
An overcrowded market: Indonesia has a total of 240 separate banks Chas Stowers

At one level this involves working with the finance ministry to sort out the bad debts of state banks and orchestrating restructuring at private banks, says Soedradjad Djiwandono, central bank governor. At another the central bank is strengthening its regulations and supervisory capacity to prevent fresh problems arising in the future.

Minimum capital requirements are being raised to 12 per cent by the year 2001 from 8 per cent at present. Since last year the central bank has limited lending by private banks to related companies to 20 per cent of capital. This is hard to enforce but fewer banks are evading the limit, says Mr Soedradjad.

It is also limiting credit growth at individual banks with an annual target of 16 to 17 per cent for the industry as a whole. Although the motivation is one of monetary policy, restrictions on loan growth encourage banks to collect bad debts, says Michael Chambers of stockbrokers GK Goh Ometraco.

Bad and doubtful debts at Indonesian banks



Source: Bank Indonesia

Finally, the central bank is encouraging banks to merge, especially the myriad small banks without licences to deal in foreign exchange. Like the large state-owned banks, these also have an outstandingly bad lending record, and since they are deprived of the opportunity to diversify their earnings into treasury operations, they often cannot afford to write-off their losses. "It's slow but there is some progress," says Mr Soedradjad. "We were near a crisis but it didn't become a crash."

Bapindo came near to collapse, but is still operating, he says. Lippo Bank, a private sector bank, had problems last year because of its exposure to property, but with help from other banks it has been able to overcome them. The number of problem banks has been reduced to 18 compared with 30 in 1993 when the authorities first became concerned about the sector.

The price of a safer banking system, though, may be a squeeze on profits. Higher capital requirements will not necessarily reduce returns because high interest rates mean banks can earn handsomely from the interest-free capital that is raised in a rights issue. But constraints on loan growth will limit their ability to increase volume. While interest margins are high at over 5 per cent, they are likely to shrink as a result of competition and the increasing use by better risk borrowers of other instruments such as commercial paper.

The private sector banks, which have a smaller legacy of bank debts, are likely to face fewer difficulties adjusting. "We will have the edge over the next few years," says K.J.Low, international adviser at Bank Tiara which is controlled by the Ometraco Group. The state banks are less adept at winning business from the emerging middle market which is where the best new opportunities exist, he adds.

One response to any squeeze on earnings is likely to be a concerted attack on costs. That brings the story back to Bank Negara Indonesia and its flotation in such an adverse climate. "We have not seen the figures yet, but you have to assume that the efficiency ratios of a state bank are not comparable with the private banks," says James Spence of brokers W.I.Carr.

After privatisation BNI will have an incentive to pare back overheads and improve the quality of its earnings. Indeed, says Mr Soedradjad, part of the aim is to use BNI as an example for other state banks of how to improve the management of its business.

If it succeeds, better quality earnings and the higher stock market multiple that would follow might make BNI a worthwhile investment. The decision to privatise would then be justified by the extent to which there is room for improvement despite the seemingly inauspicious background to the launch.

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday June 25 1996

IN BRIEF

Aérospatiale and Dassault near deal

Mr Charles Millon (left), the French defence minister, confirmed that a framework agreement for state-owned Aérospatiale and privately-controlled Dassault Aviation to merge their aircraft activities was imminent. The government had set the end of this month as the deadline for the two groups to agree a plan to create a joint company by the end of 1998. Mr Millon said the "pilot committee", which is composed of top executives from the two companies, "is in the course of finalising conclusions which will be announced in the next few days". Page 19

Sol Meliá $275m IPO breaks records
Sol Meliá, the Mallorca-based hotel group which is scheduled to start trading on the Madrid stock exchange on July 2, has raised $275m in fresh capital through an initial public offering that broke all records for an international placement by a Spanish company. Page 18

Crédit Lyonnais plans 5,000 job cuts
Crédit Lyonnais, the state-owned French bank, announced plans to cut 5,000 of its 35,000 jobs by the end of 1998. Page 19

Ahold seeks $1.8bn to fund US buy
Ahold, the Netherlands' leading supermarkets group, is to raise $1.8bn through a global share offering – the biggest equity issue by any Dutch company apart from privatisations – to fund the acquisition of Stop & Shop, US store chain. Page 19

Australian advisers back derivatives move
An Australian government advisory committee has recommended a shake-up of the country's derivatives markets. The changes would remove the distinction between futures and securities-based products, and allow any authorised exchange to handle standard derivatives transactions. Page 21

New Woolwich chief backs float
The UK's Woolwich Building Society ended three months of speculation over whether it was still on course for a 1997 stock market flotation when it appointed Mr John Stewart, group operations director, as chief executive. Mr Stewart said the society was "bang on schedule" for conversion to a bank and flotation next year. Page 22

Japanese shares hit four-year high
In Tokyo, the Nikkei 225 index registered another four-year high, adding 72.65 to close at 22,603.20. By last Friday, the Nikkei 225 had recovered one third of the ground lost between December 1989, when it hit an all-time high of 38,915, and August 1992, when it bottomed at 14,309. The Topix index gained 9.31 to a four-year high of 1,718.91. Page 38

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Allianz	1160.5	+	30.5
BIf & Berg	630	+	17
Degussa	514	+	8
Holzmann	447	+	12
Lahmeyer	595	+	69
Rheinelektra	1349	+	129
NEW YORK ($)			
Rises			
Blyth Inds	43	+	2¾
Safegrd Scien	81	+	2¾
Times Mirror	46	+	3
Falls			
Bush Boake	24⅝	–	2¼
Carmike Cine	27	–	2¾
Owen Hlthcare	14¼	–	2
LONDON (Pence)			
Rises			
BTP	294	+	16
Br Borneo	571	+	20
Liberty	415	+	20
Falls			
BTG	1636	–	73
Chiroscience	453	–	16
Real Time Cntrl	193	–	16
TORONTO (C$)			
Rises			
ACC Telentr	13.	+	1.0
Oralite Grp	8.25	+	0.75
Petersbrg Lng	11.25	+	1.0
Falls			
Biovail	41.0	–	3.0
CCI Grp A	8.6	–	0.8
CSA Mgmt A	14.05	–	0.85
PARIS (FFr)			
Rises			
Air Liquide	909	+	14
Canal Plus	1302	+	36
Imetal	729	+	19
Immobanque	695	+	26
Legrand	912	+	18
Falls			
GTM Entrepose	341	–	8.7
TOKYO (Yen)			
Rises			
Chiba Bank	982	+	17
Isuzu Motors	650	+	18
Nagasakiya	927	+	47
Falls			
Daimaru Inc	740	–	19
Itoham Foods	828	–	22
Lng Trm Crdt	830	–	23
HONG KONG (HK$)			
Rises			
First Pacific	11.85	+	0.4
Lai Sun Intl	9.7	+	0.3
Vtech Hldgs	12.6	+	0.4
Falls			
Beijing Dev	1.17	–	0.13
Cheuk Nang	2.0	–	0.1
Yoshiya Intl	0.52	–	0.13
BANGKOK (Baht)			
Rises			
Imperial Htl	21.5	+	1.5
Rockworth Pub	32.0	+	2.5
Thai Rubber	24.75	+	2.25
Falls			
Bangkk Union	38.5	–	4.25
Hua Thai Man	50.0	–	5.0
Poonphol	46.0	–	4.0

New York and Toronto prices at 12.30pm.

Morgan Stanley buys mutual fund group

By Maggie Urry in New York

Morgan Stanley, the investment bank, has agreed to pay $745m for Van Kampen American Capital, a mutual fund group, in a further expansion of its asset management activity. Morgan Stanley will also assume $430m of debt.

The deal, expected to go through in the autumn, follows Morgan Stanley's acquisition finalised this year of Miller, Anderson & Sherrerd for $350m. The Van Kampen purchase will add $57bn to Morgan Stanley's assets under management, taking the total to almost $160bn. Morgan Stanley's shares rose $1 to $49⅜ in morning trading.

Van Kampen, the fourth largest non-proprietary mutual fund group in the US, is 75 per cent owned by Clayton, Dubilier & Rice, the private leveraged buy-out group, with the balance largely held by management. It acquired Van Kampen Merritt in 1993 for $359m, and in 1994 paid $432m for American Capital Management & Research which was merged with Van Kampen. CD&R's equity investment in the business totalled $272m.

Mr James Allwin, president of Morgan Stanley Asset Management, said a retail mutual fund group was the missing part of the investment bank's US asset management activity. MSAM serves the institutional and high net worth individual markets. He hinted at forthcoming acquisitions of asset-gathering operations outside the US.

The deal is a further example of the merger trend in the US investment management industry. Morgan Stanley and other investment banks have identified asset management as a source of more stable earnings streams than their broking activities.

Mr Philip Duff, chief financial officer of Morgan Stanley, said about 20 per cent of group pre-tax profits came from asset-gathering activities, and this deal would raise that proportion to nearly 30 per cent.

He said the price was comparable to that paid for Miller Anderson, and that over the next 12 years Morgan Stanley would enjoy tax benefits from the deal with a present value of $150m.

Mr Allwin said one attraction of Van Kampen was its back office capabilities in providing services to 2m retail customers. MSAM planned to expand Van Kampen's position in the so-called 401(k) personal pensions market, considered to be the fastest growing area of the mutual fund business.

Mr Allwin said MSAM had had "important conversations" with the brokerage firms which distribute the funds and were "comfortable" that the firms would continue to sell the funds in spite of the change of ownership.
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Saab investors to inject $524m

GM and Investor agree refinancing for Swedish carmaker that gives US group option for takeover

By Hugh Carnegy in Stockholm

General Motors of the US and Investor, the main arm of the Wallenberg empire, are to pump SKr3.48bn ($524m) into Saab Automobile in a refinancing deal that opens the door to an eventual complete takeover by GM of the struggling Swedish luxury carmaker.

The recapitalisation, which comes on top of SKr8bn already jointly provided by the two owners since GM bought a half share in late 1989, is the latest attempt to put Saab on a stable footing after accumulated net losses of SKr9bn during the 1990s.

Yesterday's agreement signalled an end to the arrangement made in 1989 under which GM, the world's biggest carmaker, has management control of Saab, shared ownership with Investor on a 50-50 basis.

The new deal gives GM and its German subsidiary Opel the right to buy out "all or part of" Investor's stake in 1999 or 2000 – and gives Investor the right to sell to GM/Opel half its Saab shares in the year 2000 if GM has not exercised its buy option first.

Mr Claes Dahlbäck, chief executive of Investor, said the group intended to remain as a long-term shareholder in Saab. "We feel we have an obligation to the company – it is a Swedish company – and we really believe it has a future," he said.

But the signs are increasingly that GM is positioning itself to take full control.

The refinancing package follows the appointment earlier this month of Mr Robert Hendry, one of GM's top executives from Detroit, to head Saab and the appointment of a senior executive from Saturn, the successful GM subsidiary in the US, as head of Saab's operations in the US, its biggest market.

At the same time, Investor is reducing its weighting in cyclical engineering sectors in favour of investments in more growth-oriented industries. Investor shares rose SKr6.50 to close at SKr239 yesterday as the market reacted positively to the prospect of reduced exposure to Saab.

As part of the refinancing deal, Investor is paying $125m to GM in effect for its option to sell at least half its Saab stake. Opel is also writing off an outstanding SKr1.14bn loan made to Saab. The SKr3.48bn in new capital is in the form of subordinated loans from GM and Investor.

The money is to be spent chiefly on a marketing effort in Saab's top markets – including the US, UK, Italy, France, Germany and Japan – in an attempt to increase output from about 100,000 vehicles a year to 150,000 by the turn of the century. Mr Dahlbäck said such an increase would establish "good profitability".

Next year sees the launch of a new model to add to Saab's medium-sized 900 and larger 9000 models. The ageing 9000 is due to be phased out. Sustaining the higher volumes will require a further new model. It was clear yesterday the refinancing package did not include provision for such a model and no decision on a further model has yet been made.

BTR may find [limits] being imposed on its options for reshaping, writes **Ross Tieman**

Analysts question a theory of evolution

After six months as c[hief] executive of BTR, Mr [Ian] Strachan is finding [his] strategy for reshaping the most diversified industrial [con]glomerate overtaken by eve[nts].

Analysts are growing imp[atient] at the lack of clear signals [about] how Mr Strachan plans to [over]haul the company, and [are] reinforcing weakness i[n the] share price, already knock[ed by a] profit warning in the spri[ng].

This week there has eve[n been] concern the dividend [is] under pressure, although [at meet]ings with analysts yeste[rday] Kathleen O'Donovan, [finance] director, was reassuring. "[There] was nothing in the m[eeting to] indicate a dividend cut," [said one] of those present.

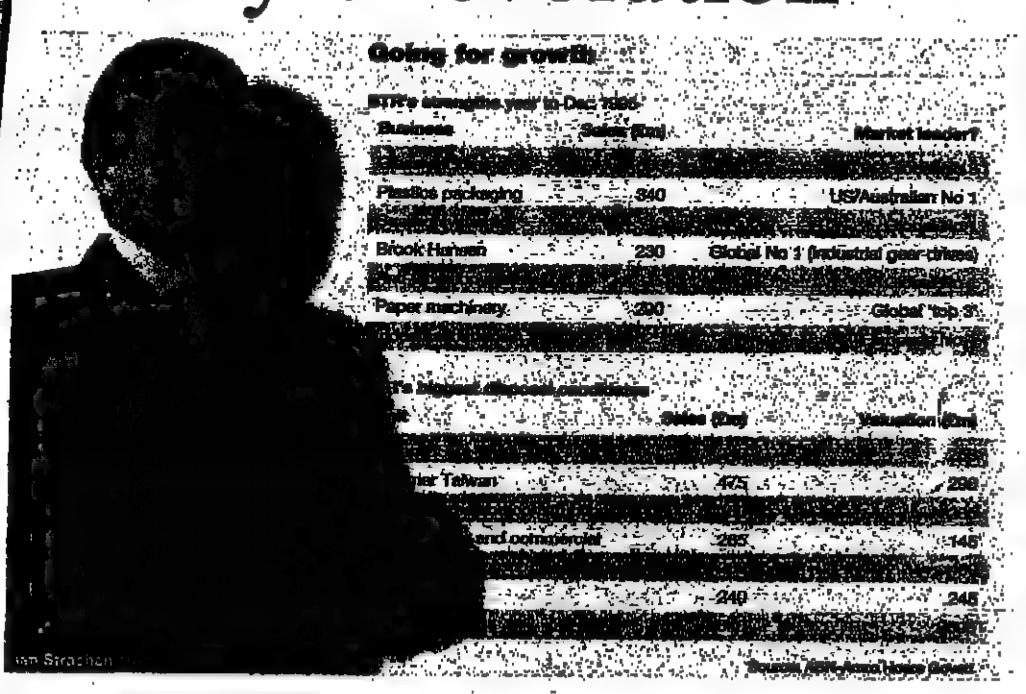
But tough market c[onditions] have caused BTR's bro[kers] to cut its 1996 profit for[ecasts from] £1.4bn to £1.35bn ($2.1[bn) exclu]ding disposals. And a[s] capital investment ha[s risen,] with rising dividend[s] and interest charg[es,] BTR's ability to gene[rate cash ...]

According to b[rokers] N[atWest] Amro, BTR's unde[rlying cash] flow position slipp[ed from a] £89m surplus in 199[4 to an out]flow of £253m last ye[ar. Yes]terday's briefing, [...] expectations have [...] a further outflow is in 1996.

The weakness [of the share] price – which has [lost a quar]ter of its value in less [than a year –] may also compound [...] has in the past dec[ade] raised £1.7bn from [con]verting warrants. But its shares, down [...] at 255p, are below [the conver]sion price. Unle[ss ...] ver, BTR is likely t[o ...] of £240m from this [...].

"This situati[on ...] bal[...] ance sheet has [...] sud[den]ly," says on[e ...] man.

The problem [...] y, is who took the [...] start that these pr[...] ping limiting his op[...] d of BTR. In part [...] rgin selling perip[heral ...] may businesses at [...] units have to sel[l] quickly.



Mr Mark Cusack, analyst at UBS, says: "I think we may see the first details of the strategy review with the interims in September and a series of portfolio rationalisations thereafter."

Mr Strachan, former deputy chief executive at mining group RTZ, knew when he took the job that changing a group made up of 1,500 businesses, with annual sales of £9.97bn, would take time.

His strategy for BTR is evolutionary. He has said BTR would concentrate on achieving faster organic growth in businesses where it could aim for global or regional domination.

"Top line growth is critical," he said. There was to be "renewed focus on organic growth" and "acquisitions for portfolio development".

that meet Mr Strachan's growth criteria probably amount to 40-60 per cent of sales, from paper-making machinery through packaging to car parts.

But as well as focusing on core businesses, BTR had to move into high-growth markets in Asia and Latin America. Although 79 per cent of its sales are outside the UK, about 90 per cent of revenues derive from slow-growth Organisation for Economic Co-operation and Development economies.

Building plants and entering new markets costs money. BTR's capital investment has risen from £531m in 1994 to an estimated £650m-£675m this year.

By implication, activities where BTR is a relatively small, such as plastic polymers in Taiwan and aggregates in the US, are for sale. These would be big disposals. Polymers in Taiwan account for about £290m of BTR's sales, polymer products a further £600m. But polymer prices are weak and any buyer of BTR's controlling interest in the China General Plastics Group of Taiwan will also be obliged to reach a deal with Mr James Chao, who controls the remaining shares. This disposal may not be easy.

Mr Strachan has already shown a knack for selling businesses as well as acquiring them. Since March, BTR has sold its sports equipment business, Dunlop Slazenger, for £330m. It divested its Plascoat plastic processing activities in the UK, its Dunlop adhesives business, and its car radiator business, International Radiator Services, raising a further £113m.

He has also made some small acquisitions, focusing on packaging and car parts in Asia and Latin America. Scope for acquisitions is constrained by BTR's high level of gearing, which reached 107 per cent at the end of last year, and has been falling slowly since. Nevertheless, as UBS's Mr Cusack points out, BTR is "a company that is financially strong in terms of interest cover and cash cover".

Mr Strachan's challenge is to reshape the portfolio without eroding earnings per share. BTR's past success is his biggest problem. In 1995, the company's pre-tax profits of £1.5bn provided a return on sales of 17.1 per cent. The company's return on capital was a remarkable 30.9 per cent.

Three months ago, Mr Strachan hired Mr John Saunders from SmithKline Beecham as corporate strategy director. Together, analysts say, they must resolve the contradiction between a big dividends, now draining BTR of £650m a year, and the need to invest a higher proportion of profits in nurturing the business.

Says one analyst: "The problem is, what else are they going to get out of?"
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Auchan launc[hes] bid for rival

By Andrew Jack in Paris

The privately-held French retail group Auchan yesterday launched a shake-up in the country's supermarket sector with a takeover bid for Docks de France, a rival retailer quoted on the Paris stock market, valuing it at more than FFr16bn ($3bn).

The offer at FFr1,250 a share comes after months of speculation on an Auchan takeover. It began buying shares in April and now holds 17 per cent of the equity. The acquisition could lead to changes in the competitive French retail market. Auchan manages 79 hypermarkets around the world including 52 in France, while Docks de France manages retail chains including Mammouth.

Mr Christophe Dubrule, Auchan chairman, said the take[over would ...] th or fifth large[...] er in France.

The bid [...] French [...] ressure govern[ment ...] new on large [...] ents to shopping [...] small increase [...] Large shopkeep[ers have] been retailers [...] France looking [...] tion in and con[...] their ho[...] ot com-

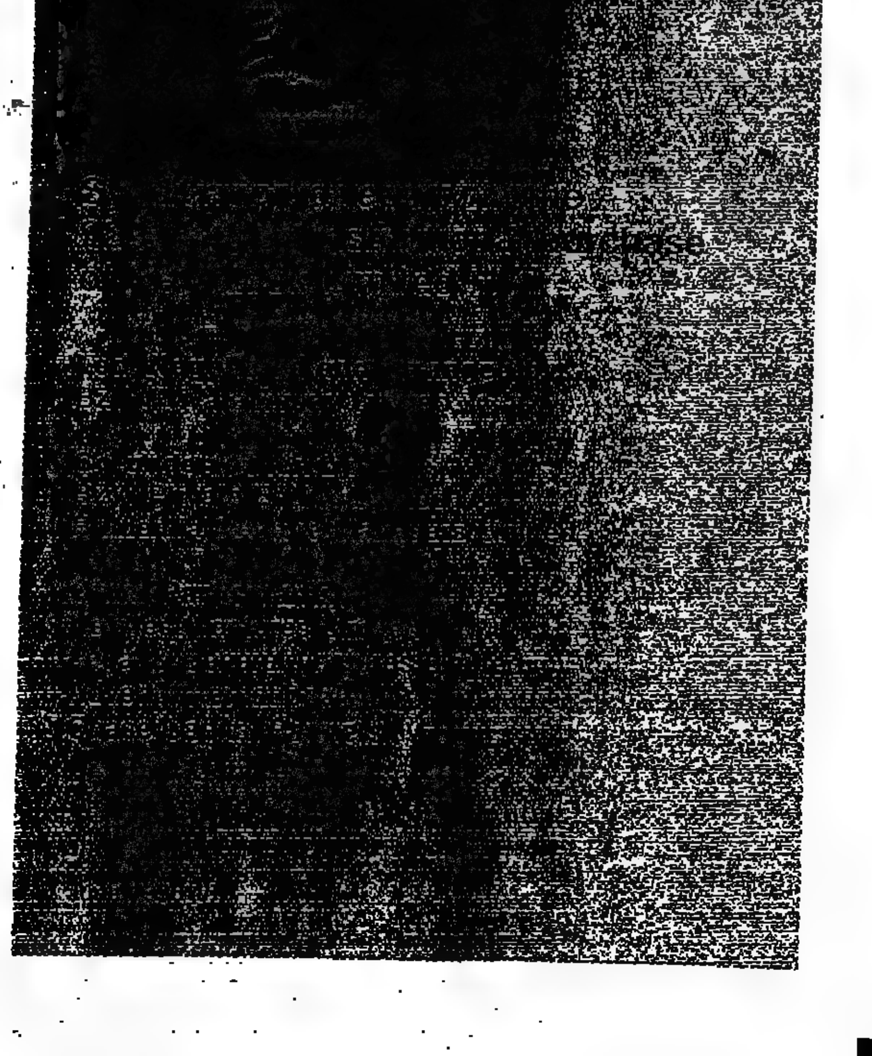
Docks [...] in the ment y[...] opposed past m[...] l Deroy, to the t[...] that his chairm[...] a white group [...] tentions knight[...]. of Auc[...] lly lifted

Mr [...] surround- the v[...] ublished ing [...] a pre-tax accou[nts ...] profit in 1995 of FFr1.1bn before provisions, on gross sales of more than FFr64bn. It has debt of FFr3bn and cash of FFr8bn.

He said the takeover would be funded partly by FFr5.5bn in cash reserves, and that Auchan's bankers, Société Générale and Deutsche Bank, "fully supported" the group to help finance the remainder.

The takeover bid is dependent on Auchan receiving at least 51 per cent of the voting rights in Docks de France. The offer price represents a 38 per cent premium to the average share price in the past three months.

Mr Dubrule ruled out any possibility of Auchan seeking a stock market quotation. Mr Gérard Mulliez, the founder, and his family control 84 per cent of the shares, with the remainder owned by staff.



Sun Life's [...] disappoints

By Ralph Atkins in London and Andrew Jack in Paris

The first trading day in London for newly-quoted Sun Life and Provincial, the UK and Ireland arm of UAP, the lossmaking French insurer, ended in disappointment for investors yesterday with the shares closing 3p below the 235p offer price.

The lacklustre opening bucks the recent trend for new issues, particularly high-technology stocks – even though the Sun Life and Provincial offer was 2.7 times subscribed.

But Mr Michael Hart, chief executive, said: "This was not a [...] long-term stag [...] not disap[pointing for] inv[estors ...] poi[...] ares would

A [...] nerous pro- be [...] than 5 per sp[...] life assurer ce[...] nerate the w[...] faster-grow- s[...]

i[...] retty fairly [...] s no great [...] up initial [...] Trevor May, [...] at Salomon

[...] ominated by [...] tors, which [...] of the shares on offer. But 11,000 applications were received for the retail offer where the average investment was £3,300.

The offer was for 224m shares, comprising 143.4m shares issued by Sun Life and Provincial and 80.7m existing shares sold by UAP. Robert Fleming, which acted as adviser and sponsor, sold a further 33.6m shares it had the option to buy from UAP and is understood to have bought back some of those shares to help support the price.

UAP has retained a majority stake of 60.2 per cent. The flotation will allow it to cut its FFr12bn ($2.3bn) debt by FFr4bn.

هكذا من الأصل

Sol Meliá raises $275m in record-breaking IPO

By Tom Burns in Madrid

Sol Meliá, the Majorca-based hotel group which is scheduled to start trading on the Madrid stock exchange on July 2, has raised $275m in fresh capital through an initial public offering that has broken all records for an international placement by a Spanish company.

As the offer period closed, demand for the 13m shares issued by the company was 22 times that offered on the domestic tranche and it was 20 times oversubscribed outside Spain, where 9m shares were placed.

The price of the IPO, which will put 40 per cent of the family-owned business on the market, was fixed at the top of its range at Pta2,700 per share, and valued the group at $687.5m.

The IPO represented a significant step forward in the development of Madrid's Bolsa as a source for capital, for it was the first time a domestic company has tapped the local market for funds.

"Logic would dictate that we will be seeing more issues like this one," Mr Juan Bastos, chief executive of Madrid brokers Ibersecurities, said yesterday.

A feature of the international tranche was that Sol Meliá cancelled presentations in the US and offered equity solely to the UK and continental Europe because the group has thriving business interests in Cuba and could run foul of the Helms-Burton law that threatens inward investment to Cuba.

In the event, the threat of US government action against the company wholly failed to dissuade institutional interest in the placement.

The appetite for the issue reflected both the success with which Sol Meliá sold itself as a global pure hotel business – th[illegible] company manages 211 resort a[illegible] city hotels in 23 countries and [illegible]anked 17th among the world's [illegible]ls groups – and the considera[illegible] interest among institutions in[illegible]ng in the leisure sector.

The travel a[illegible] tourism industry grew world-wid[illegible] 15.6 per cent last year, and Sol M[illegible] is the dominant hotel company [illegible]pain, where the leisure industry [illegible]unted for nearly 19 per cent of th[illegible]s domestic product in 1995.

"This was a u[illegible] opportunity for investing in tou[illegible] in Spain," said one London broker involved in the placement. The success of the issue allowed UBS, the Swiss banking group which has co-ordinated the IPO, to close the international book for Sol Meliá at the end of last week and, with final allocation of shares due on Friday, the hotel group will now have the opportunity to pick and choose the institutional investors it wants as shareholders.

The allocation is likely to favour institutions which know the company well and which will form a stable shareholder base as long-term investors.

Coca-Cola sets Scandinavia's drinks market fizzing

The split between the US group and its long-time partner has thrown the market into turmoil

Coca-Cola's decision last week to break with its long-time producer in Sweden and Norway and enter talks with Carlsberg of Denmark over new co-operation has left Scandinavia's soft drinks market fizzing.

The US group and Pripps Ringnes, partners for half a century, have hammered out a SKr1.1bn ($166m) severance package that will see continued collaboration until the start of 1999. But few doubt that the gloves will come off once the phase-out is complete.

Aggressive pricing is likely from Coca-Cola, while Pripps Ringnes has already pledged to defend its soft drinks brands vigorously.

The split between Coca-Cola and Pripps Ringnes, owned by Orkla, the Norwegian food group, introduces a new rigour to a market that has long been characterised by a lack of competition.

"The competition picture has turned around completely. Carlsberg and Coca-Cola are very strong and now Orkla and Pripps Ringnes will be trying harder to develop their own brands. The market is in a bit of turmoil," said one Stockholm-based beverages industry analyst.

Between them, the two companies control between 60 and 65 per cent of the Swedish and Norwegian soft drinks markets. Coca-Cola, the clear market leader, has a 40 per cent share in Sweden and 50 per cent in Norway. But despite the combined strength of Coca-Cola and Pripps Ringnes, the US company has grown increasingly dissatisfied with its returns.

Pripps Ringnes, formed last year by the merger of Pripps of Sweden and Ringnes of Norway, has a stated policy of focusing on its own brands and was apparently unable to satisfy Coca-Cola's demand for higher visibility for its products.

Coca-Cola felt its strategy was incompatible with Pripps Ringnes – an analysis shared last week by Mr Paul Bergqvist, Pripps Ringnes managing director.

Coca-Cola's conviction that it was receiving insufficient growth of its own products, especially in the big Swedish market, receives some support from figures showing that the average Swede consumes only 169 eight fluid ounce servings of Coke per year, compared with 256 in Norway and 169 in Denmark and the Benelux countries.

Co-operation finally foundered after Pripps Ringnes rejected Coca-Cola's demand for part-ownership of the bottling operations, an increasingly familiar stricture in the US group's international operations in recent years.

Mr Randy Donaldson of Coca-Cola in Atlanta, said: "Fifteen years ago we were either the passive victims or beneficiaries of where our bottlers were. Our philosophy now is to put bottling control in the hands of management with the same aggressive goals as we have." The untapped potential in particularly the Swedish market is substantial, he believed.

Consumption of soft drinks in Sweden, Norway and Denmark is 1.5bn litres per year and the market is estimated to be worth between SKr15bn and SKr23bn.

For Carlsberg, the parting of the ways has provided a gilt-edged opportunity at a time when the Danish brewer is seeking to strengthen the operations of Falcon, a Swedish brewery in which it purchased a 30 per cent stake last year. Carlsberg already handles Coca-Cola's production and distribution in Denmark through its subsidiary Dadeko and is keen to use Falcon's Swedish network to distribute Coca-Cola across Sweden and Norway.

Until now its soft drinks operations have been directed primarily at the home market. Negotiations are at an early stage but an entry into Sweden would dovetail well with Carlsberg's desire to build "critical mass" at Falcon, which has 14 per cent of the Swedish beer and soft drinks market.

"If they can use the Falcon distribution network to distribute Coca-Cola products it will be a very good fit and also cut their costs," said one beverages analyst based in Stockholm.

Analysts have suggested the move is also a defence against a possible incursion by a rival into a slowly opening Nordic market. Carls[illegible] [illegible]ently bidding for [illegible]gian brewer Hansa, [illegible]eing disposed of by [illegible] the terms of the [illegible]mes merger, and is [illegible] to remain vigilant against any move by its main competitor Heineken, the Dutch brewery group, into Scandinavia.

Greg McIvor

Swedish soft drinks

	market value		volume	
	SKr m	% growth	Litres m	% growth
1988	5,888		605	
1989	[illegible]		[illegible]	
1990	7,148		634	-0.5
1991	[illegible]		[illegible]	
1992	8,904		701	[illegible]
1993	[illegible]		[illegible]	
1994	10,174		753	[illegible]
1995	[illegible]		[illegible]	
CAGR 1991-95	7.5%		4.9%	

Source: Datamonitor [illegible] database, local trade interviews

NEWS DIGEST

BNP spurns Warburg bid for CIP holding

Banque Nationale de Paris, the French banking group, yesterday said it had rejected an offer by SBC Warburg, the investment bank, to buy out its majority stake in Compagnie d'Investissements de Paris, which holds stakes in a number of leading French companies. SBC Warburg, which holds 3 per cent of CIP, made an offer of FFr205 a share to BNP for its 84 per cent stake, after arguing that BNP's original offer of one of its own shares for each CIP share undervalued the company.

The BNP offer, which closes on June 28, was triggered last month after SBC Warburg launched a series of critical resolutions to be debated at the CIP annual meeting calling on the management to improve returns for its shareholders. Since the BNP offer, SBC Warburg had unsuccessfully lobbied the French stock market regulatory authorities to demand an improvement in the BNP bid and to provide a cash alternative to payment in shares. *Andrew Jack, Paris*

Veba chief sees overseas growth

Mr Ulrich Hartmann, chairman of Veba, the German conglomerate, said he expected more than 50 per cent of sales to be generated abroad in 10 years' time. Speaking in an interview with Sunday newspaper Welt am Sonntag, Mr Hartmann said Asia and America would be the basis for this growth. Mr Hartmann said Veba had DM10bn ($6.5bn) for expansion. *AFX News, Frankfurt*

Fiat downbeat on domestic sales

Mr Roberto Testore, managing director of Fiat Auto, said the Italian market was expected to be flat in 1996, while the European market, excluding Italy, was likely to rise 3 per cent. "The crisis is deep and the price war may claim famous victims," Mr Testore said, adding that he did not know when the situation would improve, although a recovery was possible in 1997. He said he expected total western European car sales to reach 12.3m in 1996, of which 2.4m would be Fiat-made cars. *AFX News, Milan*

Iberia awaits approval for sale

The sale of the remainder of Iberia's holding in Chilean airline Ladeco was awaiting board approval from Teneo, Iberia's parent, a Teneo executive said, confirming an earlier report in financial daily Expansion. But he said he could not confirm the size of the stake to be sold nor the price of the operation. Expansion said Iberia planned to sell 25 per cent of Ladeco to Lan Airlines for $8m, adding that the airline had already transferred 13.07 per cent of its stake in Ladeco to Andes Holding, which consisted of Teneo, Merrill Lynch Europe, and Bankers Trust Foreign Investment Corp.

"The operation with Ladeco is along these lines, but final details will not be available until the Teneo board gives its approval," the executive said. "But following the sale of the stake, Iberia will no longer have a presence in the Chilean market," he added. *AFX News, Madrid*

■ Suez, the French financial group, posted first-quarter sales of FFr22.38bn ($4.3bn), down 6.2 per cent from FFr23.879bn a year earlier. On a constant structure basis, sales were up 1 per cent from FFr21.961bn to FFr22.263bn. *AFX News, Paris*

■ L'Oréal, the French cosmetics and healthcare company, said it would make a bonus issue of 6.146m new shares with a nominal value of FFr10 each, to be distributed in a ratio of 1-for-10, effective on Friday. *AFX News, Paris*

هكذا من الأصل

Aérospatiale and Dassault closer to deal

By David Buchan in Paris

A framework agreement for state-owned Aérospatiale and privately-controlled Dassault Aviation to merge their aircraft activities is imminent, Mr Charles Millon, the French defence minister, confirmed yesterday.

The government had set the end of this month as the deadline for the two companies to agree on a plan to create a joint company by the end of 1998.

Mr Millon said yesterday that the "pilot committee" of top executives from the two companies, which is supposed to produce the plan, "is in the course of finalising conclusions which will be announced in the next few days".

Mr Serge Dassault, president and chief shareholder of the Dassault group, has for several months resisted President Jacques Chirac's plan to see the country's two aircraft makers merge, as part of France's defence restructuring.

However, under pressure from the Elysée, he last month started to negotiate finncial terms with the goverment, and allowed Dassault tecutives to begin discussig an industrial plan with their Aérospatiale counterpart.

The government has nt yet received final reports fro the pilot committee, or fro the banks retained by the mpanies to evaluate their spective assets. But, accorng to Les Echos, the French biness daily, government an company negotiators are cle to a deal giving Mr Dassau a 27 per cent share in the ne com-pany and the presidency of a new supervisory board. This would leave Aérospatiale with a large controlling majority and probably its current presi dent, Mr Louis Gallois, as chief executive in charge o day-to-day management.

However, in a last attempt t maximise the remaining ide tity of the family jet firm bu up by his father, Marcel, M Dassault is said to be holdi out for the company to named Dassault-Aérospatia rather than the other w around.

Mr François Auque, Aérospatiale's finance director, last week hinted at the likely valuation of his company's assets, when he recalled that British Aerospace had valued its share in the Airbus consortium at £1bn ($1.54bn). The value of the civil aviation assets of Aérospatiale, which has nearly twice as large a stake in Airbus as BAe, is estimated at FFr15bn. Dassault Aviation, the maker of the widely-exported Mirage jet and the new Rafale fighter for French forces, has assets said to be worth FFr10bn.

Crédit Lyonnais looks to cut 5,000 jobs

By Andrew Jack in Paris

Crédit Lyonnais, the state-owned French bank, yesterday announced plans to cut 5,000 of its 35,000 jobs by the end of 1998 as part of efforts to increase productivity.

Mr Jean Peyrelevade, chairman, presented the job loss target to union represents at a meeting which followed several weeks of talks designed to identify areas where staffing could be reduced. The latest reductions follow a pattern started two years ago, since when the bank has announced two separate "social plans", or restructuring programmes, to cut numbers.

During the first restructuring, in 1994, the bank cut 1,124 jobs. A second plan, now under way, is designed to reduce numbers by a further 2,427.

However, the new targets represent an important increase in the total number of jobs to go, and reflect a different strategy which concentrates on specific areas of activity in which staffing will be cut rather than aiming for reductions across the entire group.

Mr Pascal Lamy, a member of the bank's management board, said yesterday he hoped to avoid compulsory redundancies by using early retirement, voluntary redundancies and more part-time working.

Crédit Lyonnais has been under increasing pressure in the past few months to cut jobs as part of wider initiatives to improve profitability and reduce operating costs. Payroll costs account for some 60 per cent of expenses.

NEWS DIGEST

Paribas 'has FFr9bn of unrealised gains'

Mr André Levy-Lang, chairman of Compagnie Financière de Paribas, the holding company, said the group had unrealised capital gains of about FFr9bn ($1.74bn), not including the gain it expected to make from the sale of its 56.6 per cent stake in Poliet to Saint-Gobain. In an interview with the French daily, La Tribune Desfossés, Mr Levy-Lang said the Poliet sale should yield a further gain of almost FFr7bn. Paribas' portfolio of shareholdings has a book value of about FFr30bn, and the level of unrealised gains had barely fallen despite the Poliet sale, mainly because of the recent rise in share prices, he said.

Paribas intended to invest about FFr2bn a year in developing sectors such as mining, energy, telecommunications and the media. It planned to maintain its 4 per cent stake in Havas and would have a 1.4 per cent stake in Canal Plus after deciding to deliver its UGC DA shares to Canal Plus's exchange offer, he said. Mr Levy-Lang said the fact that Paribas would now be a shareholder in Canal Plus, Havas, and their digital TV rival CLT, posed no fundamental problem.

Paribas recently cut its stake in CLT's parent company, Audiofina, which Mr Levy-Lang said brought a gain of FFr1.8bn. He also said the group planned to reorganise the division of shareholdings between the parent company and its Banque Paribas unit in the next two years. *AFX News, Paris*

Bank of Cyprus in Guernsey move

Bank of Cyprus, the island's largest banking organisation, with a 40 per cent share of the market, is to open an office in Guernsey from July 1 and operate under the name Bank of Cyprus (Channel Islands) as part of its policy of becoming more international. The group already operates branches in Greece and the UK. The BoC unit will be administered for the time being by the Royal Bank of Canada.

The move is aimed at attracting funds deposited "secretly" by Cypriots with other banks overseas because of the currency restrictions still in force in Cyprus, said Mr Solon Triantafyllides the bank's chairman. He also said Bank of Cyprus would now lay more emphasis on private banking and try to make more funds available for Cypriots living in the UK. *Andreas Hadjipapas, Nicosia*

Alcatel Alsthom sells TV stake

Alcatel Alsthom, the French telecommunications and engineering group, is to sell its majority stake in SECE Cortaillod, the leading Swiss cable TV operator, to Cablecom Holding of Switzerland. Alcatel said it would receive more than FFr2bn ($386m) from the transaction, which is priced at SFr616 a share. The company said the move was an important step in its disposal programme to sell FFr10bn of non-strategic assets. *David Owen, Paris*

Air Liberté and AOM in alliance

By David Owen in Paris

Air Liberté and AOM, two medium-sized French airlines, yesterday announced an accord aimed at strengthening their position ahead of the further liberalisation of European air travel in 1997.

The code-sharing and general commercial agreement should enable the companies to allocate their aircraft more efficiently among their various French routes. It could be the precursor of a fully-fledged merger aimed at creating a predominantly French-owned private competitor for Air France's domestic arm.

Mr Lotfi Belhassine, Air Liberté's chairman, said yesterday that talks on a possible deal were now beginning and that it was the "common wish" of Air Liberté and AOM that a "good-sized private airline in France" be created.

He indicated that Air Liberté would seek to involve a number of other partners if it opted to bid for AOM. It would probably be preferable for such a deal to be concluded before airlines from other European Union countries were allowed unfettered access to the French domestic market in April 1997.

AOM is controlled by CDR, the company created to receive FFr135bn ($26bn) of largely lossmaking loans and investments from the balance sheet of Crédit Lyonnais, the troubled state-controlled banking group, for sale over the next few years.

Mr Belhassine estimated the two companies had a combined market share of about 25 per cent of the French domestic air transport market. He said Air Liberté had taken a 32 per cent share of traffic on flights between Paris and Toulouse, the company's most important domestic route.

He said Air Liberté made net profits last year of FFr13m on turnover of FFr1.8bn.

While sales were expected to climb this year to about FFr2.8bn, the company was not expecting its results to be any better. This was because of a "fare war" that has seen ticket prices decline sharply on many domestic routes.

Ahold seeks $1.8bn to pay for US buy

By Gordon Cramb in Zaandam

Ahold, the Netherlands' leading supermarkets group, is to raise $1.8bn through a global share offering, the biggest equity issue by any Dutch company apart from privatisations.

The offer is to fund the acquisition of Stop & Shop, the north-eastern US chain for which it launched an agreed bid in April.

The 36m new shares it plans to issue will represent some 22.4 per cent of Ahold's expanded equity, but this could grow to 24.9 per cent: provision has been made to accept oversubscriptions which would increase the size of the offer by up to 3.3m shares.

US investors are being allocated 14m shares of the total in the form of American depositary receipts, and the issue will also be marketed in the UK, France, Germany and Switzerland, with Goldman Sachs as global co-ordinator.

The prospectus assumes an offer price of Fl 87 a share, but final terms will be set after the Wall Street close on ..ly 15. Ahold has a listing ..ere as well as in Brussels, Zu..h, and Amsterdam where th.shares closed Fl 1.50 higher y.terday at Fl 92.90.

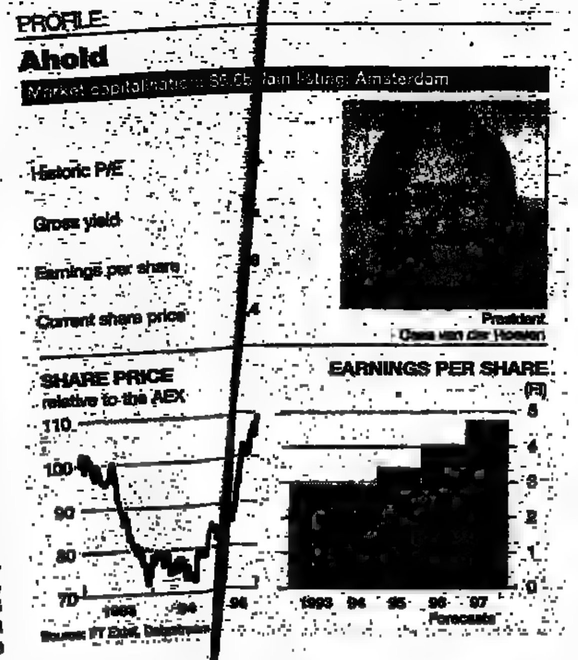
Control of the Ne.York quoted Stop & Shop : being sold by Kohlberg Kravis Roberts, the buy-out s.ecialist.

Ahold, based in Z.andam, north-west of Am.erdam, operates the Albert He.n chain domestically and al.r.dy has 650 US stores throug.regional names such as Tops .Markets, Edwards and Bi-Lo.

The US accounted .r more than 45 per cent of its Fl 29.6bn ($17.3bn) total sales .st year, from which it made .t profits of Fl 492m. On a p.o-forma basis, the inclusio. of the Massachusetts-base. Stop & Shop would have bo.ted 1995 earnings to Fl 661m.

Mr Cees van de. Hoeven, Ahold president, s.d: "Our critical mass will in.ease and lead to considerable .st reductions." Stop & Shop, .ith operating earnings of .26m last year, could improv. these by an annual $80m in three to five years .bining operations su..ing, distribution an. .abel development, w..ld's existing US act. .ould benefit by a furt...

He said the co... .as at an advanced st... .otiations with the US Federal Trade Commission which should allow the purchase to be completed on schedule by the end of next month. It expected to divest no more than 32 of Stop & Shop's 176 outlets, and without negative impact on its balance sheet.



DnB sell-off meets with strong demand

By Hugh Carnegy in Stockholm

Norway yesterday completed its biggest bank privatisation issue to date, selling a 19.8 per cent stake in Den norske Bank, the country's biggest financial services group, for NKr2.4bn ($367m) to a mix of domestic and foreign investors.

The 127m-share issue, which reduced the state's stake in DnB to 52 per cent, was priced at NKr19.30 and was twice oversubscribed. DnB shares closed at NKr19.70 on the Oslo bourse, up NKr0.40 on the day.

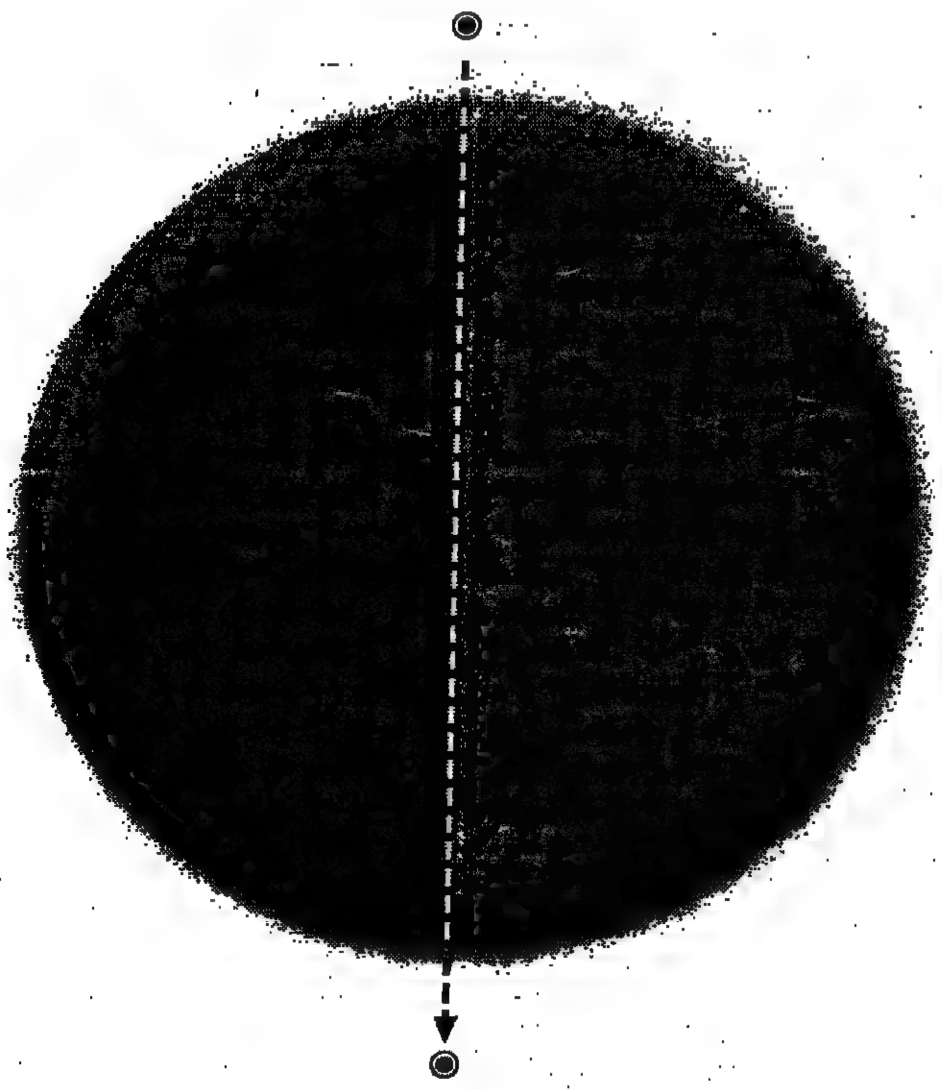
The sell-off was the biggest in a series of bank privatisation moves approved by the minority Labour government to recoup some of the NKr25bn of taxpayers' money the state was forced to pay out to rescue the banking system from collapse during a loan-loss crisis at the turn of the decade.

It brought to Nr7.5bn the total so far cl.sed back, through the DnB .le and the earlier sales of a.the state's holdings in Fokus Bank and Union Bank of N.way and a significant portio. of the state stake in Christiania Bank.

The governme.t is committed to retaini. majority stakes in DnB an. Christiania, at least until ne.year, and to thereafter hold . to a one-third stake in ea..

The Govern.ent Bank Investment Fun. said 19 per cent of the lates. DnB offering was taken up .y domestic institutions and . per cent by private investors.

SBC Warburg .as the global co-ordinator an. adviser for the whole issue. Co-lead managers for the .nternational offering were M.rgan Stanley and Alfred Berg.with Fondsfinans and DnB .onds leading the Norwegian .ering.



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MGM bids slip below $1.5bn as contest closes

By Christopher Parkes in Los Angeles

The deadline for offers to buy the French-owned MGM film, television and distribution group passed yesterday with only a handful of bidders in the running and lower-than-expected price forecasts.

The buy-out ambitions of MGM chairman Mr Frank Mancuso and his management team were still unclear as New Regency Enterprises and Morgan Creek Productions, both with close links to Time Warner, appeared to have a tactical edge over the richest prospect, Europe's Polygram, owned by Philips.

Expected bid levels have slipped from $2bn-plus to less than $1.5bn after close examination of MGM by a dozen concerns, which were attracted initially by assets including the "Leo" lion brand, the largest distribution network in the world, and a reviving reputation as a hit-maker.

However, enthusiasm waned because of the need for heavy capital injections to keep the movie studio producing, plus worries about a Hollywood shake-out perceived to be on the horizon because of a glut of movies and soaring production and marketing costs.

Uncertainties over the status of the MGM video library, which includes the *James Bond* series and is licensed to Time Warner until 2003, have also raised concerns.

For the conservative Polygram Filmed Entertainment, one of the companies most consistently linked to the sale, the purchase would mark a decisive move into Hollywood with one of the best-known and least-exploited brands in the world.

Other n[...]es most often linked with the impe[...]ng deal include entrepreneurs we[...]ersed in the ways of the US film [...]dustry and funded by assorted o[...]iders.

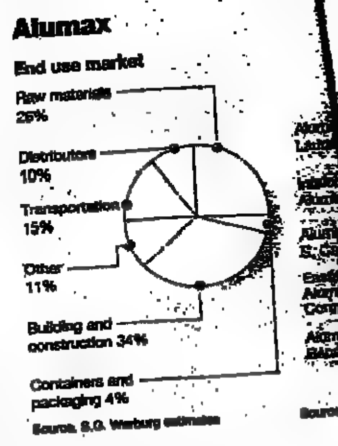
New Re[...]cy is controlled by Mr Arnon Mi[...]an, an Israeli financier, who is b[...]ed by Australia's Mr Kerry Pack[...]and Samsung, the South Korean ele[...]nics concern. His films include *Fre[...]villy* and *Under Siege*, and are dis[...]uted by Warner Bros.

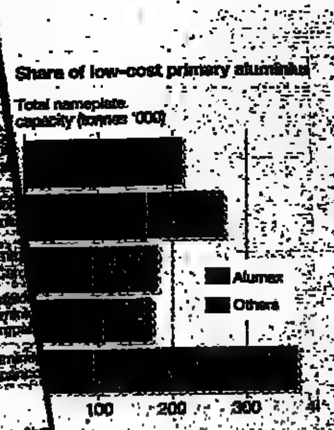
Morgan C[...]k is believed to have backing fro[...]aewoo, another South Korean con[...]erate, and Fujisankei Communications, the Japanese media concernut, too, has close links with Warner, which may tend to favour Polygra[...] or another outsider. The impendi[...] merger of Turner Broadcasting [...]stem with Time Warner is being re[...]ewed by the US anti-trust authorit[...]s.

Since [...] deal to sell MGM to a Warner [...]ffiliate would probably prompt [...]urther investigation, its owner, C[...]dit Lyonnais, might prefer a quicker[...]cleaner split from its movie assets wh[...]h have cost it an estimated $2bn in r[...]ning costs since 1992.

Alumax aims to make its metal more precious

The US group is focusing on high-value output as well as cheap primary aluminium, says **Kenneth Gooding**






Allen Born
Chairman and chief executive

Mr Allen Born, chairman of Alumax, third largest of the US aluminium groups, says he wants to attract more European shareholders because they tend to be long-term holders. He suggests, only half jokingly, that for many US shareholders, "35 days is long-term".

His jaundiced view of American investors springs partly from a recent skirmish with Kaiser, a smaller US aluminium group that threatened to force through a merger with Alumax.

Mr Born and his board fought off these overtures, something they were well-prepared for. Only 18 months ago they looked closely at acquiring Kaiser, which is 60 per cent owned by Maxxam, a quoted group controlled by US financier Charles Hurwitz. "The deal did not make sense," says Mr Born. "We did not see sufficient synergies. We did see major problems."

Kaiser's chief executive, Mr George Haymaker, claimed, when backing away in March, that there had been "every indication" Kaiser would have received "very significant support" from Alumax shareholders. However, an aggressive approach by Kaiser "would not likely result in a constructive dialogue between the companies".

Fewer than 10 per cent of Alumax's shareholders are in Europe, in spite of the group's being listed on the Belgian bourse. Mr Born expects a listing on the London Stock Exchange, via an introduction by broker SBC Warburg within the next few days, to help increase the number.

Alumax, which is also quoted in New York and Toronto, employs 15,000 in more than 100 plants, mainly in the US, but is known in Europe because of its Kawneer subsidiary, which makes engineered architectural building products.

Alumax, which has revenues of $2.9bn and assets of $3bn, is less than three years old in its present form. It was part of Amax, whose non-aluminium assets were merged with Cyprus Minerals on a 50-50 basis in 1993.

Mr Born, now 63, who joined Amax in 1967, engineered the Cyprus Minerals deal, which also involved Alumax shares being distributed to Amax holders. He agreed to spend the first five years after the spin-off as chairman and chief executive of Alumax. Mr Born is also vice-chairman of Cyprus Amax.

At Alumax he has been spearheading substantial changes, focusing operations on specialised, high-value products while protecting its position as one of the world's lowest-cost producers of primary aluminium. Alumax is also looking for growth in developing country markets.

Nowhere is this re-positioning more obvious than in Alumax's transformation of its downstream businesses. In January it paid $430m cash for Cressona, a private company that expanded Alumax's downstream capacity by 30 per cent. Capital projects could result in another 15 per cent expansion by the middle of next year, representing total downstream capacity expansion of more than 50 per cent in 18 months.

Cressona turned Alumax into the world's biggest aluminium extruder – doubling its capacity to produce extrusions – and Mr Born says the industry expects the supply of extrusions to the transport industry alone to grow by more than 10 per cent a year for at least the next five years.

On conservative estimates, Alumax should be able to see annual growth of 4 per cent to 5 per cent and this would raise its annual extrusion output to more than 800m pounds. "Under the right circumstances we could grow at a rate of closer to 10 per cent a year and that would top our goal of 1bn lbs a year."

Mr Born worked on the Cressona deal for a year and at the end of that time paid the price he had first suggested. Cressona, which had revenues of $490m and shipped 350m lbs of aluminium parts annually, had been consistently profitable for 15 years but needed to go into an entirely new business if it was to continue growing.

Also, to take advantage of demand from carmakers, which need to make lighter vehicles, Alumax has launched a series of plants to make semi-solid forged aluminium parts. Born says this technique "enables you to produce a near-finished part with one swift stroke of a forging press".

As Alumax wishes not only to keep pace with its own primary metal requirements, but also to continue to sell about 30 per cent of its aluminium output to other customers, it is having to consider adding to its smelting capacity from 2000 onwards. Iceland is the most likely location.

Another indication of Alumax's new approach was the conversion of its Texarcana, Texas plant from the production of can sheet and lid stock to a general purpose mill – marking Alumax's exit from the can stock business.

"We're not wasting resources on low margin, commodity pro[...] says Mr Born. Inst[...]e group is concentrat[...]producing very thin, very [...] aluminium foil of the [...]sed for cigarette wra[...]d yoghurt pot lids. "It i[...] to make common hous[...]wrap but it takes speci[...]echnical expertise to pro[...]is ultra thin foil," Mr B[...]s out. "And this foil c[...]least 50 cents a pound [...]than commodity housel[...]."

A[...] expertise in [...] has won it a [...]int venture in China, [...]nnan Aluminium, t[...] 8,000–10,000 tonnes [...]oil a year at Kunmin[...]minium will come fr[...]ter next door and the [...] to a nearby cigarette[...] Yunnan is contribu[...] and equipment wo[...] $30m while Alumax [...]ng $40m in cash and [...]technology.

Mr Bor[...]t when he first visit[...]three years ago, the[...]vere interested only[...]x helping to build [...]melter. "I told them [...]interested in helping [...]nce something that could be dumped in my [...]ckyard."

Al[...]max's total capital expendit[...] will rise from $214m last yea[...] to $240m in 1996 before falli[...] to an annual $200m, says [...]r Lawrence Frost, chief fina[...]al officer. Gearing was 48 p[...] cent when Alumax was spu[...] off and fell to about 35 per [...]nt before the Cressona purc[...]ase, which took it back to 42 p[...] cent – relatively high for t[...] industry. Mr Frost says the g[...]al is to stay between 30 and 3[...] per cent.

Sal[...] of non-core assets have broug[...] in $392m so far – $142m for the sale of 14 per cent o[...] the Intalco smelter to a Japan[...]se consortium; $160m for M[...]can mining assets sold to In[...]strias Penoles; and $90m [...] 28 per cent of the Mt Holy [...]eration sold to the Glenco[...] trading group.

Mr B[...]n says there might be more. [...]he board prefers to use cash-fl[...] to get debt down and implem[...]t the restructuring, he says [...]ut when this is completed [...]idend payments will follow. Alumax also has approva[...] for a share buy-back programme, "but that won't happen [...]morrow".

NEWS DIGEST

AT&T in Internet service merger

AT&T New Media's Business Network is to be merged with Industry.Net, an electronic commerce venture, to create a new company focused on providing information and electronic commerce services to businesses on the Internet.

The new company, called Nets Incorporated, will be headed by Mr Jim Manzi, who joined Industry.Net in January as president and chief executive. He was formerly chairman and chief executive of Lotus Development, a personal computer software company acquired last year by International Business Machines.

Nets Incorporated will combine the Business Network's business news and information resources with Industry.Net's online marketplaces for business-to-business commerce. Financial terms of the transaction were not revealed, but AT&T will become a minority owner of Nets Incorporated and will be represented on the board of the new company.

Industry.Net, a five-year-old company that launched its Internet services last year, has attracted more than 200,000 industrial equipment purchasers and 4,500 vendors of equipment whose product catalogues appear on the Industry.Net Web site.

Mr Manzi said that AT&T, which will license the use of its name to Nets Incorporated, would help to draw more users to the electronic commerce services. "One of the keys to building successful buying and selling communities on the Web is having compelling content," he said.

Louise Kehoe, San Francisco

Sara Lee to buy Lovable Italiana

Sara Lee, the US food and consumer products group, is making the latest in a series of European acquisitions by agreeing to buy Lovable Italiana, a leading Italian maker of underwear, which is marketed under the Lovable brand name. Terms have not been disclosed.

Lovable has annual sales of about $115m, some of them in Italy, where it has an established distribution network, and the rest through exports to other European countries. Sara Lee said the acquisition was consistent with the company's plan to build up its portfolio in intimate apparel brands, which includes Dim, Playtex, Bali and Wonderbra.

In April, Sara Lee paved the way for a big expansion of its processed meat business in Europe by announcing that it had agreed to buy the French processed meat producer Aoste, one of Europe's largest processed meat companies, with annual sales of about $850m. Both deals are expected to close this summer, subject to regulatory approval.

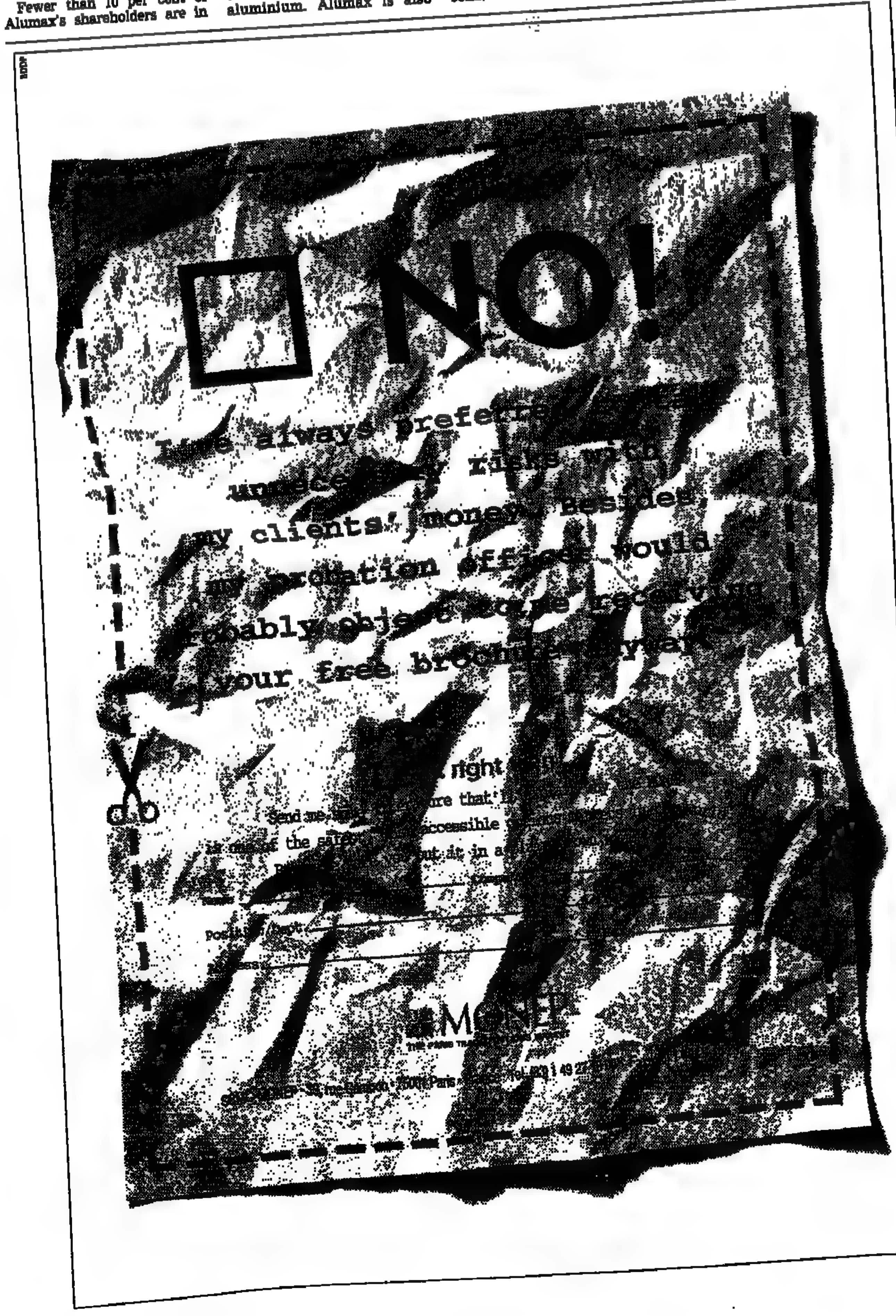
Richard Tomkins, New York

TCI and News Corp in cable deal

News Corporation's 24-hour television news service, the first substantial challenger to the established international Cable News Network, will be piped to 10m US homes this autumn by Tele-Communications Inc, the leading cable television provider. TCI, which gains an option to take a 20 per cent non-voting stake in the channel as part of the deal, will roll out the new service to 90 per cent of its 14m customers in the next two years.

The agreement, announced yesterday, tightens links between TCI and Mr Rupert Murdoch's News Corp, which already include a 50:50 partnership in a projected global network of sports television services. Reports that Mr Murdoch was prepared to pay cable providers as much as $10 for every subscriber signed up are understood to have prompted ABC, the Disney-owned TV network, to shelve its plans for 24-hour news.

Christopher Parkes, Los Angeles



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NEWS DIGEST

Derivatives revamp urged in Australia

A government advisory committee has recommended a shake-up of Australia's derivatives markets. The changes will essentially remove the distinction between futures and securities-based products, and allow any authorised exchange to handle standard derivatives transactions. The draft report, from the Companies and Securities Advisory Committee, follows a long tussle between the Sydney Futures Exchange and the Australian Stock Exchange. The former is permitted to trade futures, and the latter securities and securities-related products such as options.

The two exchanges became embroiled in a legal battle two years ago when the SFE said it would launch "individual share futures" – covering individual stocks such as BHP. The ASX countered with some deep "in the money" call options with low exercise prices – effectively replicating some of the futures contracts' main features.

Under the CASAC proposals, both the SFE and the ASX could seek to be general derivatives exchanges. Once accepted by the authorities, they would be entitled to trade any class of derivative, including at least part of the large market in over-the-counter customised derivatives. The CASAC report also suggests that new derivatives exchanges be permitted, subject to ministerial approval. It acknowledges that technological changes could allow for direct screen-based trading – with minimal input from brokers – and recommends that this be considered. "Future technological developments could reduce, if not eventually eliminate, the role of brokers as intermediaries on some exchanges," it says. "The regulatory controls should be sufficiently flexible to accommodate the possibility of non-intermediated as well as intermediated derivatives exchanges."

The Sydney Futures Exchange welcomed the report. "Hopefully, this will put an end to any further attempts to divide up territory and put artificial roadblocks in the way of the SFE offering a full range of derivatives," said Mr Les Hosking, chief executive. The advisory committee will seek submissions on the report until the end of August.

Nikki Tait, Sydney

Renison builds Cudgen RZ stake

Renison Gold Fields, the Australian mining group in which Britain's Hanson holds about 40 per cent, has acquired a 19.9 per cent stake in Cudgen RZ from a subsidiary of South Africa's Gencor. It is also making an offer for the remaining shares at the A$2.18 each. Cudgen is an Australian-listed company whose main interest is a 50.1 per cent stake in Consolidated Rutile, the mineral sands producer with operations in Australia and West Africa, including a 50 per cent interest in Sierra Rutile in Sierra Leone.

The bid by RGC values Cudgen at around A$80m (US$63.3m). Minsaco Resources, the Gencor subsidiary which sold the initial 19.9 per cent to RGC, still holds a further 30 per cent. RGC said yesterday Minsaco had indicated it would accept an offer in respect of this stake in the absence of a higher bid. RGC said the offer was designed to give it operational control over CRL "with the immediate priority being to take a majority holding in Cudgen". It said it did not expect to make an offer for the minority holdings in the mineral sands group.

The bidder said it wanted to strengthen its position as a significant mineral sands producer. Both companies are big producers of rutile and zircon. CRL accounts for about 25 per cent of Australia's rutile production and 10 per cent of zircon. Its main mining operations are on North Stradbroke Island east of Brisbane. Shares in Cudgen yesterday surged 74 cents, or almost 50 per cent, to close at A$2.22.

Nikki Tait

Van der Horst expands

Van der Horst, the Singapore engineering and infrastructure group, has agreed to buy 35 per cent of PT Super Indah Makmur, the Indonesian packaging company, for Rp43.49bn ($18.7m). It said it would also tender to buy another 14 per cent of the company. Van der Horst said the purchase of the stake in the Indonesian company, which is quoted on the Jakarta Stock Exchange, was in line with its objective of establishing a listed vehicle in each of the main countries in which it operated.

Van der Horst said it had acquired the shares from PT Topas Invesindo. It said it would finance the purchase through a combination of internal resources and debt financing. The acquisition was not expected to have any material impact on its group earnings per share for the current year ending September 30 1996.

Reuter, Singapore

Garuda listing in 1988

Garuda, Indonesia's state-owned air carrier, will be listed on domestic stock markets in 1998 after restructuring its finances, the official Antara news agency said yesterday. The government has said on several occasions it planned to list Garuda and some other state-run companies on the Jakarta and international stock markets as part of a move to reduce mounting debt.

Mr Soepandi, Garuda's president, was quoted as saying: "Garuda Indonesia will enter the domestic stock markets in 1998 after restructuring its capital and organisation." The government has said it would pay off Garuda's debt, worth Rp1.6bn, for the purchase of nine aircraft. This would later be converted into equity in the company. Garuda has nine aircraft on order from Boeing. It reported profits of Rp350.6bn in 1994, up from Rp7.7bn in 1993.

Agencies, Jakarta

Nihon Cement back in black

Nihon Cement, one of Japan's three largest cement companies, said yesterday it swung to a consolidated pre-tax, or recurring, profit of Y3.49bn ($32m) for the year ended March 31 from a loss of Y2.33bn a year earlier. Sales advanced to Y327.16bn from Y314.65bn last time. The latest results compare with Nihon Cement's forecast for consolidated pre-tax profit of Y3bn and sales of Y323bn. For the current fiscal year, which ends on March 31 1997, the company said it expected to post group pre-tax profits of Y7.6bn and sales of Y344bn.

AP-DJ, Tokyo

Asustek sets IPO price

Asustek Computer, one of the leading makers of computer mother boards, has set a tentative price of NT$98 each for the 23m shares slated to be floated in its initial public offering, according to an official at lead manager Grand Cathay Securities Corp. The selling price is one of the stock market's highest in recent years.

AP-DJ, Taipei

Petronas taps potential of sanction-free S Africa

Its investment in Engen comes as oil industry controls are being dismantled, writes **Mark Ashurst**

The acquisition by Petronas, the state-owned Malaysian oil and gas company, of a 30 per cent stake in Engen, the South African oil refiner and retailer, was an unexpected omen for a liquid fuels industry on the brink of radical change.

"It is hard to find any part of the oil business where bigger is not better," said Mr Jacques Piccard at broker Smith Borkum Hare in Johannesburg.

South Africa has seven domestic oil companies, giving it the highest concentration by market size in the world, and there is clear scope for economies of scale. Until now, retail petrol prices and profit margins have been set by the state-run Central Energy Fund, which managed the nation's fuel reserves during the sanctions era.

The relaxation of controls on crude oil imports last year was widely seen as the first step in the creation of a more competitive industry. The Petronas deal, believed to be the largest single foreign capital investment in South African history, is the latest evidence of restructuring in the local economy. When Engen stock resumed trading last wee[k] analysts found it hard to pr[e]dict the impact of the R1.9[bn] ($435.3m) transaction on [an] industry braced for dereg[u]lation. "Petronas have go[t a] good asset and for them it i[s a] great geographic ploy, but t[hey] have not gone into much de[tail] on synergies," said Mr Picc[ard].

Petronas, which will bec[ome] Engen's largest shareho[lder,] will pay a premium of 3[?] cent on the closing price o[f] a share on June 11 [when] Engen's shares [were] suspended. The transa[ction] involves a general ex[it] offer to all existing shar[eholders], and a R605m rights[issue] by Engen. Significant[ly, the] balance will be made u[p by] a direct transfer to P[etronas] from Sanlam, the ins[urance] group, and Rembran[dt, the] tobacco and luxury [goods] group, which together [hold] 30 per cent.

Negotiations with t[he] two institutions "almost [...] the deal" at the last [minu]te, according to Petronas [...], and it took an all-ni[ght] negotiating session before [agreem]ent was reached.

Mr Marinus Dali[...]lam chairman, expects [...] up to be left with a 15-[per] cent stake on completion. "We are looking for a smaller stake in a new operation – a normal portfolio investment. Criticism that local conglomerates will not let foreigners into the economy is simply not true," he said.

Engen will not disclose its plans for the R605m cash injection, but it will reduce the gearing on its R1.1bn debt from 27 per cent to 12.5 per cent.

The logic of co-operation around the Indian Ocean rim, where Petronas has a fledgling distribution network in the Seychelles and Engen is building an export market in Mauritius, is compelling.

Petronas's strength as a significant oil trader should help guarantee Engen a stable supply of crude and strengthen the negotiating position of both groups in the international market. "There are terrific opportunities for crude procurement and trading," says Mr Rob Angel, Engen chief executive.

The real benefits of the deal will take time to emerge. Engen leads the South African retail market with a 24 per cent share, but has lost ground from its peak of 26 per cent. Its unlisted competitors, notably Shell and BP, have exploited the marketing and refining expertise of their international parents to gain market shares of 20 per cent and 17 per cent respectively.

"Without an international partner, there would have been a good short-term return on Engen but its long-term viability was suspect," says Mr Piccard.

Talks on a merger with Sasol, the synthetic fuel producer that manufactures oil from coal, are likely to resume in the near future. In a deregulated market, Sasol will face increasingly competitive supplies of imported crude. A merger with Engen would increase its share of the retail market from 7 per cent to a combined 31 per cent, with scope for improved efficiencies at Engen's refinery.

Previous talks were curtailed by a dispute between Sasol and Total over a joint refining venture. That issue has been resolved and Engen can return to the bargaining table, strengthened with its new Petronas shareholding.

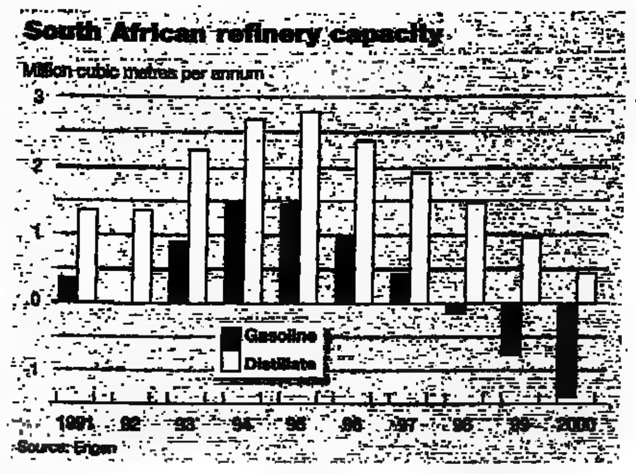
There is scope, too, for technical improvements at Engen's refinery. South Africa was one of the world's four fastest growing energy markets in 1995. Demand for liquid fuel is growing at 1.5 times GDP and will exceed current capacity by 2000.

Further synergies are possible in the upstream business, where Engen has a 60 per cent stake in its recently listed subsidiary Energy Africa, which has extensive prospecting rights to oil and gas fields.

Mr Dato Hassan Marican, Petronas chief executive, describes the investment as "not just a corporate deal" but "a partnership and a commitment to the entire continent of Africa".

His claim lends substance to the argument of many South African politicians that the country needs to re-fashion its economic allegiance with Europe, a relationship which dates from the colonial era, and develop closer ties with the tiger economies of south-east Asia.

It is also ironic that the Petronas investment is likely to scupper Pretoria's plans to merge its assets into an integrated, state-owned oil and gas company.



A deal that shows the way forward for the oil industry

By Robert Corzine

The Petronas/Engen deal could one day be seen as the model for a series of alliances linking emerging oil companies in Asia, Africa, the Middle East and Latin America, say bankers and oil industry analysts.

The mainly western oil and gas majors remain the dominant force in the energy industry, with those ranked in the Fortune 500 alone accounting for a combined worldwide turnover o[f] $800bn a year.

But man[y indus]try observers foresee strong [compe]titors emerging over the next [decade fr]om newly industrialising c[ountrie]s. And these are likely to [concentr]ate their efforts in the worl[d's fas]test growing energy markets.

"Petro[nas, Pert]amina of Indonesia, and PTT [of Tha]iland all have the potenti[al to] become 'eastern majors'," [says M]r Philip Lambert of London[merch]ent bankers Kleinwort Benson, which advised Petronas on the Engen deal.

Of the three, Petronas, which wants 30 per cent of its gross revenues from sources outside Malaysia by 2005, is seen as the most advanced in terms of commercial competence and confidence to compete against the established western companies.

Unlike many state oil companies, it has a relatively high degree of independence from the government. It has strong relations with several Middle East countries including Yemen, where it is involved in a refinery and in other Islamic countries in south Asia and Africa. But Dato Hassan Marican, the Petronas chief executive, "did not want to use politics to open the door" to the Engen deal, says Mr Simon Parker, a Kleinwort director.

Proof that politicians were not involved is that the deal remained confidential, said Mr Lambert. But he admits the good political links between South Africa and Malaysia provided a favourable backdrop.

So can the Engen/Petronas deal be replicated? Mr Lambert believes there are "a whole range of alliances to be done". The key, he said, is to link minority equity stakes to a commercial and strategic plan in a way that does not threaten the interests of either company. "Autonomy for the local management is a key issue," adds Mr Lambert. "Western majors often find that point difficult."

Azon board recommends A$300m bid from ITW

By Nikki Tait in Sydney

Illinois Tool Works, the diversified Chicago-based group, has come to the rescue of Azon, the Australian manufacturer, with a A$300m (US$237m) takeover bid.

The Australian company, spun off from the Boral building materials group three years ago, had been trying to fight off a lower offer from Pacific BBA. Azon said yesterday it was recommending shareholders to accept the ITW offer in the absence of any higher bid.

The ITW bid is worth A$2.40 per Azon share, and shareholders will also get a special dividend of 7 cents per share.

Pacific BBA, another Australian company involved in automotive components, plastic products and construction-related supplies, was offering one of its own shares plus A$1.45 in cash for two Azon shares or a pure cash alternative of A$2.10 per Azon share. Its cash alternative put a price-tag of about A$260m on Azon.

Azon said the new bid – which is subject to approval from Australia's Foreign Investment Review Board – was in the A$2.40–A$2.71 a share range suggested by a recent independent adviser's report and represented "a clean cash offer". It said it had had a "close working relationship" with Signode Corporation, part of the ITW group, since the 1950s and was no longer in talks with any other potential third party bidders.

Pacific BBA said it would await formal details of the bid before deciding its next move.

ITW had sales last year of more than US$4bn. Its manufacturing activities include construction fasteners and packaging systems. Azon's product range from ropes and strapping to steel and iron castings and metal pressings.

Room shortage lifts Indian hotels

By Kunal Bose in Calcutta

India's leading hotel companies recorded strong profit increases for the year to March as luxury hotels reported occupancy rates of 80 per cent – some of the world's highest.

The groups were boosted by near 10 per cent growth in tourist arrivals and the shortage of quality accommodation in the major Indian cities which enabled them to raise room tariffs.

Analysts said the outlook for the industry this year was even better because no new capacity had been created in the big cities.

The industry estimates India will need at least 125,000 hotel rooms by the turn of the century. At the moment it has about 60,000. Shares in hotel companies remain in strong demand, particularly from the foreign institutional investors.

Indian Hotels, the industry leader belonging to the Tata group and owner of the Taj chain, reported operating profits up 77.5 per cent to Rs2.41bn ($69.15m) on the back of a 43.3 per cent increase in turnover to Rs5.47bn.

Net profits were up 71 per cent to Rs1.41bn, after Rs204m of depreciation, Rs412m of interest and Rs390m of tax. The company is recommending a dividend of Rs7.5 a share, up from Rs5.5 last time.

ITC Hotels, part of the ITC group, posted a 73 per cent ri[se] in turnover to Rs1.24bn. N[et] profits increased 103 per ce[nt] to Rs265.2m. The dividend [is] Rs2.75 a share against Rs2.5.

Bharat Hotels, which ow[ns] the New Delhi Hilton, poste[d a] strong rise in income helped [by] "a very high level of r[oom] occupancy". Net profits [were] 49 per cent ahead to Rs3[...]. Earnings per share ros[e to] Rs28.12 from Rs18.85.

Hotel Leelaventure, w[hich] has properties in Bombay [and] Goa, reported net profits [...] cent higher at Rs440m. [Earn]ings per share rose shar[ply to] Rs13.46 from Rs9.71 an[d the] company recommended [a divi]dend of Rs4 a share, [against] Rs3 last time.

New Woolwich chief backs float

By George Graham,
Banking Correspondent

The Woolwich Building Society yesterday ended three months of speculation over whether it was still on course for a 1997 stock market flotation when it appointed a new chief executive.

Mr John Stewart, the group operations director who has spearheaded the Woolwich's expansion into the insurance industry and on to the Continent, will replace Mr Peter Robinson, who was forced to resign in April after a row over his expenses.

Mr Robinson's resignation raised doubts over how firmly the Woolwich was committed to the plans it announced in January to convert into a bank and float on the stock market.

Banks and insurance companies which have been eager to buy a building society hurriedly dusted off their files on the Woolwich, hoping its sudden management hiatus might lower the price. But Mr Stewart said yesterday the society was "bang on schedule" for conversion and a flotation probably in the middle of next year.

Brendan Corr
John Stewart: bang on schedule for a c[…]sion and flotation

"I think there has maybe been a feeling that people could get this business on the cheap. Well, if you are serious, you are going to have to put up a lot of money," he said. He acknowledged the Woolwich had […]ed more telephone calls […]usual sounding out its fe[…] about an acquisition, […]hing firm.

"W[…] haven't had is anythi[…]at constitutes a bid, a […]tion or an offer."

Mr Stewart said the converted Woolwich would not be a large universal bank, but would be "big enough to compete on our own in the sector we have chosen. We don't need a partner. If someone needs us, they are going to have to pay a very high price for a group of companies that is now extremely successful."

The society is one of the largest UK mortgage lenders with £28bn ($42.8bn) of assets at the end of last year.

Sir Brian Jenkins, the society's chairman, said Mr Stewart had been carefully measured against a field of external candidates and was "without question, the right man to lead the Woolwich to conversion and flotation next year".

However, the selection process has taken longer than the Woolwich had originally hoped.

Mr Robinson yesterday applauded Mr Stewart's appointment. "I think he is a natural successor. It's a good appointment to keep them on course for conversion."

Woolwich officials said a settlement with Mr Robinson was expected this week.

Zeneca wins US approval

Zeneca, the UK's third largest drugs company, has won approval to sell its new Merrem antibiotic in the US, the world's biggest medicines market.

Although Zeneca is best known for cancer and heart disease drugs, Merrem promises to be one of its more important products. Analysts' peak sales forecasts range up to $500m (£327m) a year.

Merrem is a "broad spectrum" antibiotic which can be used by adults and children for different infections. It works "against many different bacteria, including some that are resistant to other antibiotics," according to Zeneca.

In the US alone about $5.8bn is spent annually on in the treatment of infections with antibiotics, said Zeneca.

Ma[…]ower adjourns EGM

Mayflo[…]e engineering company […]day adjourned its EGM […]id it was still consider[…] position after its $226m[…]) takeover bid for Pulln[…] US automotive com[…] group, was trumped […]$300m offer from Te[…]he Houston-based in[…] conglomerate.

It also […]ling in nil paid rights shares would not start today, as originally scheduled.

Mayflower, which is seeking to become a global vehicle systems supplier and vehicle builder, is believed to have been encouraged to consider countering Tenneco's offer by a closer examination of some $200m in tax losses incurred by Pullman.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Date of payment	Corresponding dividend	Total for year	Total last year
American Endeavour ☆	Yr to Mar 31	3.57	(2.66)	5.13L	(2.61)	9.43L	(4.8)	-	5.2	-	5.2
Appl'd Holographics	Yr to Mar 31	8.08	(5.37)	0.176	(0.67L)	0.71†	(3.08L)	-	-	-	-
BTP	Yr to Mar 31	392.1	(346.9)	37.8♠	(37.3)	15.07†	(18.11)	Aug 16	7.15	11.2	10.9
Grainger Trust	6 mths to Mar 31	20.1	(21.6)	3.51	(4.02)	9.8	(11.5)	Jul 26	1.5	-	6.5
Greenwich Cmns §	6 mths to Feb 29	0.0784	(0.0696)	0.0077L	(0.025L)	0.11L	(0.36L)	-	-	-	-
John Lusty	Yr to Mar 31	15.7	(14.8)	0.552	(0.454)	0.28	(0.42)	Oct 1	-	0.1	-
Boss	Yr to Dec 31	41.9	(84.7)	7.3♠	(16.5♠)	5.09L†	(11.94L)	-	nil	nil	nil
Sololand	Yr to Mar 31	31.4	(26.7)	2.27	(2.09)	8.9	(8.43)	-	1.14	0.87	2
Secure Retirement	Yr to Mar 31	1.8	(2.56)	0.267	(0.585)	1.91‡	(3.28)	-	1	1	1
Tempus	Yr to Dec 31	3.7	(2.9)	0.143	(0.141)	0.81†	(1.59)	Aug 19	-	0.4	-

Investment Trusts		NAV (p)		Attributable earnings (£m)		EPS (p)		Date of payment	Corresponding dividend	Total for year	Total last year
Bankers	6 mths to Apr 30 ☆	231	(184.8)	4.8	(3.46)	2.96	(2.23)	Aug 30	1.03	-	4.22
Schroder UK Growth ⁂	Yr to Apr 30	131	(97.6)	6.85	(4.12)	5.11	(3.61)	July 31	1.5	4.7	3

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ☆US currency. ♠After […]rgs. †On increased capital. ‡On reduced capital. §USM stock. ☆Comparatives restated. ♦Second interim: makes 2.28p to date. ⁂Comparatives for 15 months.

LEX COMMENT

Woolwich

That Mr John Stewart has been with the Woolwich almost all his working life is no criticism of the building society's new chief executive. But by opting for a relatively unknown, as opposed to a heavyweight outsider, Woolwich has done nothing to increase its chances of making it to conversion next year as an independent entity. The good news is that however much the board may hanker after independence, a takeover would almost certainly serve members' interests better.

For one thing, a bidder would have to offer a premium to win control, and members would get their cash windfall more quickly. For another, Woolwich's medium-term prospects look distinctly mixed. If members hang on to their shares after conversion, they face a strong likelihood that mortgage-lending margins will come under further pressure. And like so many others in the financial services sector, Woolwich is filled with an ill-defined enthusiasm to rush out and make acquisitions. With five year protection from takeover on offer after conversion, there are few disciplines to keep a spending splurge under control.

Fortunately, the Woolwich's keen advocacy of consolidation in financial services will make it rather hard to argue that a bidder has no case: if Mr Stewart thinks it makes sense for the Woolwich to buy a life assurer or another building society, the logic should work the other way round. Although the Woolwich board may take some persuading of that in practice, a bidder could always take a leaf out of Abbey National's book when it was courting National & Provincial and make its bid public.

Willis Corroon to sell US offshoot for £21m

By Ralph Atkins,
Insurance Correspondent

Willis Corroon yesterday announced plans to sell its US life and health reinsurance subsidiary for $32.3m (£21m) cash, completing the insurance broker's withdrawal from active underwriting.

The sale of Nashville-based Consumer Benefit Life Insurance follows the completion last year of Willis' withdrawal from non-life insurance with the sale of its stake in the Gryphon group of US insurance companies.

Willis, however, still has some insurance operations in "run off" – with claims still being serviced but no new business being taken.

CBLI is being acquired by Gerling Global US Investments, part of the German insurance group.

Mr Brian Johnson, Willis vice-chairman with responsibility for US activities, said CBLI had made a "valuable contribution" to the group's results, "but the sale is a further indication of our commitment to increasing shareholder value by concentrating our managerial and financial resources on our core businesses".

Last year, CBLI contributed $2.9m to Willis' pre-tax profits. But the impact on this year's results of profits up to completion of the sale and investment income on the cash consideration is not expected to be significant.

هكذا من الأصل

Tullow Oil launches £30.3m rights issue

By Jane Martinson

Tullow Oil, the Dublin-based oil and gas exploration and production company, has launched a 1-for-5 rights issue to raise £30.3m ($46.35m) for developing existing licences and further exploration.

The issue, at 80p a share, is underwritten by Riada, Hoare Govett's Irish broking arm. The shares closed up 3½p at 89½p yesterday.

Mr Aidan Heavey, chief executive, said most of the money would be spent on appraising some 14 wells in Pakistan, four of which have already been designated as commercial discoveries. The rest will be spent on licence development in Syria and on new sites in India and Bangladesh.

"We have spent a lot of time and money building up our acreage position over the past two years. We had to raise cash to develop these assets quickly and to raise potential for our shareholders."

Takeover speculation mounted in the sector after Statoil's £203m takeover of Aran Energy in November, but Mr Heavey, who helped form Tullow nine years ago, said the group would not welcome potential takeover moves. "We have not yet developed our assets and we have no intention of being taken over until we know exactly what those assets are worth," he said.

The company, which is listed on the London and Irish Stock Exchanges, last raised capital two years ago with a £5.8m placing and open offer at 22p a share. Production in Senegal and the UK helped the company to a 52 per cent rise in 1995 operating profits to I£1.97m (£2m) on revenue 47 per cent higher at I£5.3m. The company is yet to pay a dividend.

BTP on acquisition trail

By John Authers

BTP, the speciality chemicals group, yesterday predicted it would make further substantial acquisitions after reporting a 19 per cent increase in profits, before £7m of exceptionals charges, to £44.5m ($68m).

Including the charges - £1.53m for rationalisation in the adhesives and textile coatings division, and a loss of £5.42m on the sale of the polymers division - pre-tax profits for the year to March 31 showed little change at £37.6m, on turnover ahead 13 per cent to £392.1m.

Mr Steve Hannam, chief executive, was bullish on prospects for the current year, saying it presented "more new opportunities for growth than has been seen before".

The results were achieved despite difficulties for the chemical industry caused by sharply rising raw materials prices.

Mr Hannam said: "We've got very small borrowings, so we would be looking to buy with cash. It's a good time to have a strong balance sheet, and we have the capacity to make quite a big acquisition."

During the year, BTP bought TCC bactericide for soaps from Monsanto for £3.7m, and Incal Safety, an equipment rental business, for £1m.

No further diversification is planned; any purchases will fit with current core businesses. There are unlikely to be any further disposals, however, after the sale in June of the polymers business for £6.5m.

Mr Hannam added that he had no intention of selling the safety equipment business, although it has little link to the rest of the company's activities. He said it was a good cash generator and was also counter-cyclical to the chemicals market.

BTP is also looking for further organic growth, having made record capital expenditure of £21m last year.

Ashley Ashwood

Bullish: (L to R) John Ketteley, chairman, Steve Hannam and Robert Martin, finance director

A smiling optimist at Trafalgar's helm

Erik Tonseth, head of Kvaerner outlines some of his plans for the recently merged engineering group to **Andrew Taylor and Tim Burt**

Mr Erik Tonseth exudes all the confidence, or bravado, of a man who has just paid more than £900m for Trafalgar House, one of Britain's best known companies. "I am sure," he smiles "that there are no black holes for us to discover."

Shareholders of Kvaerner, the Norwegian engineering and shipbuilding group of which Mr Tonseth is chief executive, must hope his optimism is not misplaced.

They will not want to be reminded that Sir Nigel Broackes, founder and former chairman of Trafalgar House, displayed similar confidence when the group bought Davy Corporation, the lossmaking engineering and metals processing business in 1991.

Continued losses at Davy and other acquisitions were among the main reasons control of Trafalgar was lost to Hongkong Land in 1993.

The Kvaerner boss has completed a preliminary investigation of the businesses, which include John Brown and the Cunard cruise line, as well as Davy. He has concluded that the £513.1m provisions announced last year by Trafalgar House are more than enough to cover any contingencies.

In addition to taking stock, Mr Tonseth has also embarked on a substantial overhaul of the management structure and operating culture at Trafalgar House.

He has swept away the semi-autonomous structure which allowed divisional executives, often characterised as barons, to set their own agenda, within financial guidelines established by the main board.

He is replacing this with a more centrally controlled business with all the eight divisional heads of the merged Kvaerner/Trafalgar group working closely together at a new head office in St James's, central London.

Mr Tonseth, who is moving to England with his family, considers Trafalgar's existing West End offices too large for the tight-knit senior management community, with short lines of communication, that he is seeking to establish.

For the Scandinavian chief executive, Trafalgar has long been its preferred international partner, in spite of Kvaerner's failed bid at the end of last year for another construction group, Amec.

Having achieved the scale to catapult Kvaerner on to the international stage, Mr Tonseth needs to extract a better performance from Trafalgar, which last year reported operating losses of £108.4m

He says that unlike previous management at Trafalgar, the strategy will be determined by operational managers with expertise in industrial engineering rather than financial engineering.

Executives will be more closely associated with markets and production processes, and therefore better placed to carve out improved margins in an industry which Mr Tonseth admits is suffering from overcapacity.

Kvaerner realised that to win international construction and engineering work, it needed to be much bigger, and to have, in Mr Tonseth's opinion, "a visible presence in London". The Trafalgar acquisition also reduces Kvaerner's dependence on shipbuilding, another industry suffering from overcapacity.

Kvaerner's shipbuilding profits collapsed in the first quarter from NKr3.1bn (£310m) to just NKr359m. The company, moreover, endured volatile trading conditions in its other main businesses - oil and gas equipment, mechanical engineering and pulp and paper equipment.

Kvaerner intends to combine its higher margin equipment manufacturing with Trafalgar's broader construction and engineering skills to offer customers a comprehensive turnkey service.

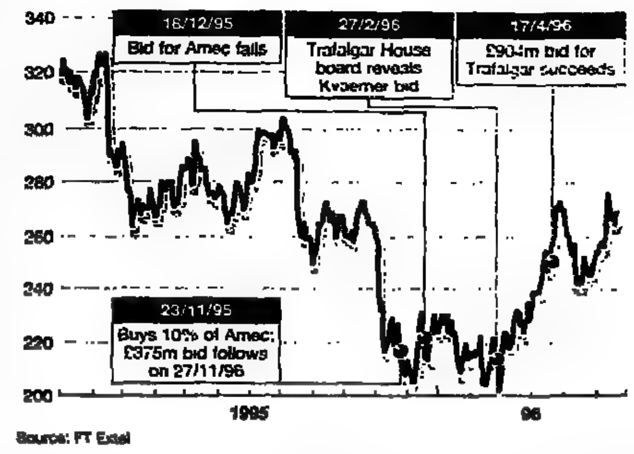
The enlarged group, which should derive considerable benefits from increased purchasing power and the pooling of technical expertise, will be a stronger contender for large oil and gas contracts in areas such as the North Sea.

Mr Tonseth recognises that to be a credible bidder for such orders, the group will need a strong balance sheet. The same applies if it intends to invest in the growing number of privately financed infrastructure projects.

More immediately, the group needs to reduce net debt - estimated by SBC Warburg to be NKr13.66bn, representing gearing of 106 per cent. If goodwill is excluded, under British accounting rules, gearing rises to 180 per cent.

Kvaerner plans a £1bn disposal programme to offset the costs of the acquisition and raise funds for investment.

Kvaerner



Source: FT Extel

Of that total, more than £350m has been raised by disposals made by the previous Trafalgar management, including the Ritz Hotel and Ideal Homes, the UK housebuilding business.

Although most analysts expect Cunard, Trafalgar's luxury cruise line, to be sold shortly, Mr Tonseth appears to have given it a two-year stay of execution - pending its return to profitability. He has vowed not to sell any business without making a profit on the deal.

In the meantime, he has identified a portfolio of shareholdings which do no fit with the group's new strategy. These include a 26.1 per stake in Amec, expected to raise more than £50m, and 17 per cent of the Bergesen shipping group, worth an estimated £160m.

Mr Tonseth, who says the company is not under pressure to sell any one asset to makes its £1bn target, plans to sell Trafalgar's commercial property portfolio of mainly offices inside London's M25 orbital motorway.

His ambition is clear. Kvaerner, following the Trafalgar acquisition, claims to be one of the world's five largest largest construction and engineering groups in terms of overseas work.

Having achieved the scale necessary to catapult Kvaerner on to the international stage, Mr Tonseth needs to prove he can extract a better performance from Trafalgar, a company which last year reported operating losses of £108.4m.

He admits it will be a tough task. "There have been a lot of problems here in the past, but we are moving in a very different direction. . . there is nothing that cannot be handled."

INTERNATIONAL PEOPLE

Sihler dials up a new top job

Ron Sommer, the man determined to turn Deutsche Telekom into the world's leading telecoms operator, may be relieved to see the back of Rolf-Dieter Leister, who last week said he would no longer head the company's supervisory board. Leister, 55, understood quite a bit about telecoms and liked to have his say.

But it is by no means clear that Helmut Sihler (pictured), who is due to become Leister's successor, is going to be a push-over.

Sihler probably understands more about washing powders and glues than about telecoms, given that he ran Henkel, the leading German chemicals group, for 12 years until 1992.

But the 66-year-old Sihler's corporate credentials go well beyond that. He was first person outside the Henkel family to run the company. He also impressed when he took over the supervisory board at Porsche, another first for anyone outside the Porsche clan.

When he was at Henkel the company went public – an especially useful experience given Deutsche Telekom's share offering later this year. Sihler also knows a thing or two about unwieldy former state-run bureaucracies; he headed the supervisory board of Deutsche Post, the federal postal service.
Michael Lindemann

BHP's man of steel

BHP, the Australian resources group, has drafted in Ian McMaster, currently its head of operations in China, to help conduct a 12-month strategic review of its steel division. The review, announced in the wake of the Sumitomo copper affair – BHP is the world's second largest copper producer – could hardly have come at a more delicate time for Australia's biggest company.

McMaster has headed BHP's interests in China (steel and otherwise) for the past year. His new challenge, according to Ron McNeilly, head of BHP Steel, will be to bring together the various divisional assessments already under way.

One of the objectives will to address the steel unit's current "serious deterioration in profitability". More fundamentally, the review will look at corporate options over the next two decade. As one BHP insider puts it: "The technical choices are pretty diverse at present".

McMaster, who is in his late 40s, will have plenty of steel sector experience to contribute. He joined BHP 30 years ago, and was group general manager of the wire products unit, the sheet and coil division, and headed the Newcastle rolling mills before departing for China. *Nikki Tait*

Carpenter to head EIB

The European Investment Bank (EIB) has stuck with its tradition of picking an insider for secretary general, with the announcement that Francis Carpenter is to succeed Thomas Oursin at the head of the EU's Luxembourg-based financing body, from July 1.

Carpenter (pictured), who was educated in England, France and the US, started his financial career with Citibank and Banque Indo-Suez before coming to rest at the EIB in 1975. He moved steadily up the organisation, most recently becoming director of credit and monitoring in the EU, with responsibility for a loan book of Ecu95bn ($117 bn). Oursin, who is retiring after 22 years with the EIB, has been secretary-general since 1994.
Nim Caswell

Tough times at Sidek

Luis Rebollar, who next month takes over as chief executive of Sidek, Mexico's troubled steel and tourism conglomerate, has a real challenge on his hands.

His stint at the company will be very different from his previous experience as an executive at Ericsson and as head of Crisoba, Scott Paper's Mexican subsidiary. For Sidek is not the Mexican outlet of a respected international corporation. Rather, it is a company that grew too far.

Its balance sheet could certainly look better. Last year, Sidek recorded a net loss of 1.88bn pesos ($250m) on sales of 3.88bn pesos, and was battered by interest charges from $2.1bn of debt.

The company wants to cut corporate costs by 50 per cent, and has appointed a new board of directors, as well as Rebollar himself. Rebollar is seen as an ally of the Mexican banks which are Sidek's main creditors; he is thought to be close to Roberto Hernández, the head of Banamex, Mexico's largest bank.

But the job of continuing the company's rationalisation will not be easy so long as Sidek's owners in the Martinez Guitron family resist the sale of any assets from their steel company – the profitable jewel in Sidek's crown.
Daniel Dombey

New boss for OMLX

Peter Cox, 48, has been appointed chief executive of OMLX, the London-based securities and derivatives exchange which is part of OM Group of Sweden.

Cox spent 17 years with the London Stock Exchange – where he was responsible for the creation of the SEAQ International market, the SEQUAL on-line trade confirmation service and the design of the Talisman settlement system – before joining OMLX in 1993. At OMLX he takes over from Lynton Jones, who has joined the International Petroleum Exchange.

Separately, Per Larsson, the OM group's chief executive, is to take over as chairman from Olof Stenhammar, the group's founder. Stenhammar will become honorary chairman.
Richard Lapper

ON THE MOVE

■ Richard Currie, 59, who with Galen Weston, 55, has led the 20-year resurgence of the LOBLAW supermarket chain in Canada, is taking the helm at George Weston, the Weston family's principal Canadian holding company. He remains president of Loblaw and Galen Weston remains chairman of both companies. Loblaw is Canada's biggest food distributor.

■ Philippe Weil has joined J. HENRY SCHRODER & Co as a director and as head of investment banking for France. He was previously general manager of Clinvest, the wholly-owned corporate finance arm of Credit Lyonnais.

■ Harry Klagsbrun, 41, deputy managing director and head of corporate finance, rises to chief executive of ALFRED BERG HOLDING, the Swedish investment bank owned by ABN Amro, from July 1. He succeeds Carl-Diedric Hamilton who has become chairman of ABN Amro's global equity directorate.

■ James McKee, 64, executive vice-president of Trinova and president of VICKERS Inc. since January 1987, retires on July 31, after 34 years' service.

■ Ronald Oberlander has relinquished his title as president of ABITIBI-PRICE, to become chairman. He continues as chief executive of the Canadian paper group, a post he has occupied since 1990.

■ Pierre Mirat joins MORGAN STANLEY's Paris office on July 8, as an executive director in the fixed income department. He will also join the Morgan Stanley operating committee. He joins from J P Morgan's Paris office, where he was head of fixed income institutional sales for France.

■ Robert Werner, 51, vice-president of Timex Corporation, becomes a non-executive director of DAILYWIN, the watch company in which Timex has a 4.99 percent share.

■ Pierre Salinger becomes non-executive chairman of International Tire Recycling and Manufacturing Corp. (INTIRMAC), a tyre recycling firm based in Vancouver, Canada.

■ Hubert Joly, 37, joins EDS as president of EDS France and a member of the European board. Joly, previously principal of McKinsey in France, will take over from Alain Richard, who will head the Rank Xerox account from July.

■ Robert Allardice has been appointed executive vice-president and chief operating officer at DEUTSCHE BANK North America.

■ Richard Wong becomes finance director for FORTUNE OIL, a London-listed company with oil-related operations and investments in China.

■ Kevin Foo, chief executive of BAKYRCHIK GOLD, the London-listed Kazakh gold mining venture, is retiring on August 1; Gordon Toll will assume temporary executive management of the company.

■ Louisa Rousseau and Andrew Tsui, two of the three managing directors of the Hong Kong head-hunting firm RUSSELL REYNOLDS, have left the company.

■ Teresa Pahl and Noel Dunn have been appointed to the international board of AON HOLDINGS, the retail insurance brokerage and risk management consulting divsion of Aon Group in Europe, Middle East, Far East and Australia.

■ Yoni Cohen, previously general manager of UK satellite television channel Bravo, has been appointed to the new position of vice-president, television and broadcasting, for POLYGRAM FILMED ENTERTAINMENT.

■ Ray Hawkins has joined CHARTERED SEMICONDUCTOR MANUFACTURING as senior vice-president, worldwide sales and marketing. He was most recently general manager of the Americas division of National Semiconductor. Rick Hodgman, formerly a vice-president at Silicon Systems, becomes vice-president of operations for Fab 2. Gordon Lindert joins from Motorola as vice-president of facilities.

■ Michael Burns, 40, currently executive vice-president and core group director overseeing SAATCHI & SAATCHI New York's General Mills account, has been appointed vice chairman.

■ How Jenkins has been appointed managing director and global head of Asian equities at SBC WARBURG.

■ Robert Brown, chairman and senior partner of Price Waterhouse, has become chairman of the CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS.

■ Laurent Joffrin, editor-in-chief at Nouvel Observateur, has been appointed editorial director of LIBERATION.

■ David Barry, 52, chairman and chief executive of Triangle Pharmaceuticals, a company he formed in 1995, has been appointed to the board of MOLECULAR BIOSYSTEMS.

■ Shigeki Matsue has been appointed president and chief executive of NEC ELECTRONICS INC, the fourth-largest seller of semiconductors in the US. He takes over from Kunishiro Saito, who was promoted to vice-president of worldwide semiconductor operations for NEC in Tokyo.

■ Edward Murchie, 49, has been appointed chairman of the management advisory committee of INTERNATIONAL ABSORBENTS, a manufacturer of absorbent products made from waste wood pulp. He is currently president of Caledonia Capital, a Virginia-based, private investment company.

■ Constantine Hampers has stepped down as chairman, president and chief executive of WR GRACE's National Medical Care (NMC) unit. He has also resigned as a director and executive vice-president of Grace. NMC will merge with Fresenius AG's worldwide dialysis products business unit, to be named Fresenius Medical Care. Hampers, who founded NMC in 1968, will become an adviser to Gerd Krick, chief executive of Fresenius.

■ Sandy Ryan has joined COASTAL CORPORATION as manager of investor relations. She previously worked for Howell Corporation and prior to that Walker Energy.

■ Valerie Salembier, 51, former president of The New York Post magazine, has become publisher of Esquire, owned by HEARST MAGAZINES in the US. Salembier, who is currently president of Quest magazine, will start at Hearst in mid-July. She succeeds Lawrence Burstein, who joined Esquire as its publisher almost two years ago.

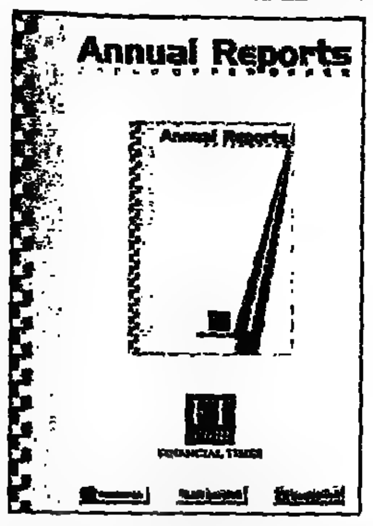
■ Evan Greenberg and and Edmund Tse, both executive vice presidents with AMERICAN INTERNATIONAL GROUP, the insurance group, have joined the board.

■ Gregory Muldoon, a senior vice president with BROWNING-FERRIS INDUSTRIES, has been appointed executive vice president and chief operating officer of the Houston-based waste hauler.

International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3595, marked for International People. Set fax to 'fine'.

Financial Times Annual Report Service



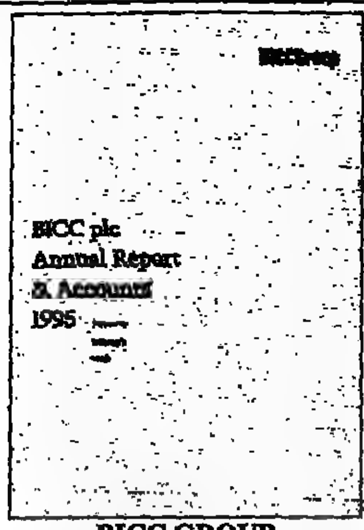
Annual reports for the following companies can also be requested via the Internet from the FT's web site which can be found at: http://www.ft.com

- American Standard Companies Inc.
- British-Borneo Petroleum Syndicate, plc
- Camelot Corporation
- Canadian Occidental Petroleum Ltd
- Guardian Royal Exchange plc
- Jenny Craig
- Pearson plc
- Group Promodès
- Sonoco Products Company
- UtiliCorp United
- Wassall plc

AEGON INSURANCE GROUP

1995: AEGON's best year ever

AEGON Insurance Group is one of the world's leading international insurance groups, with assets totalling more than NLG 150 billion (GBP 60.5 billion). Net income in 1995 increased to over NLG 1.3 billion (GBP 522 million). Shareholders' equity amounted to NLG 8.2 billion (GBP 3.3 billion). AEGON's core business is life insurance and related pension, financial and investment products. Additionally, AEGON is active in health and P&C insurance, where these sectors offer prospects for long-term profitability and strengthen the position of its distribution networks. AEGON's most important markets are The Netherlands, USA and Europe.



BICC GROUP

The BICC Group, through BICC Cables, is one of the world's largest manufacturers and suppliers of cables and cable systems. Through Balfour Beatty, it is a major international engineering and construction company.

These two businesses provide specialist products, skills and services for infrastructure development world-wide, in power, communications, transport and building.

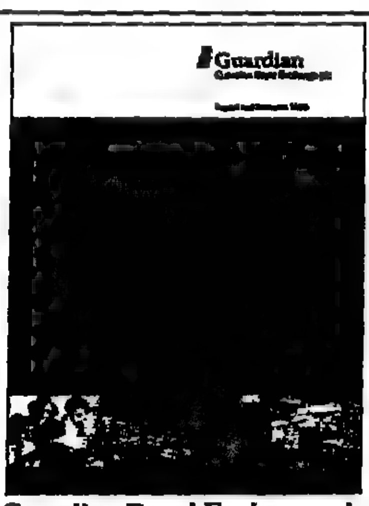
The Group is intent upon achieving competitive advantage through customer satisfaction, market leadership and the pursuit of total quality and technical excellence.

Balfour Beatty is UK-based, with growing businesses in North America, the Middle East and Asia-Pacific.

The Cables business has a major presence in all the world's regional cable markets.

BRITISH-BORNEO PETROLEUM SYNDICATE, P.L.C.

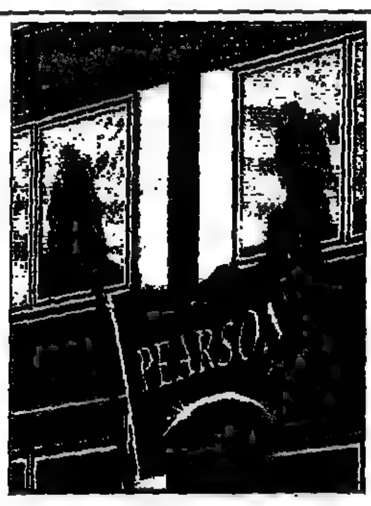
British-Borneo is a UK based oil and gas exploration company with a risk diversified portfolio of producing interests and exploration acreage. The Company's aim is to craft competitive advantage in areas of operation through careful strategic planning and the systematic recruitment and motivation of top quality people. British-Borneo's operations include interests in some of the most exciting exploration provinces in the world today, ranging from the West of Shetland region of the North Sea to the deepwater U.S. Gulf of Mexico.



Guardian Royal Exchange plc

The Guardian Royal Exchange Group provides many types of insurance around the world, with over five million customers in more than 50 countries. With an annual premium income approaching £4 billion, and total assets of some £18 billion, Guardian Royal Exchange measures its success by the extent to which it delivers an excellent service and value for money to its customers and, to its shareholders, an attractive profit and overall return on capital.

The Group's principal business is in general, life, health insurance and investment and the main markets are UK & Ireland, Continental Europe, North America, Asia and South Africa.

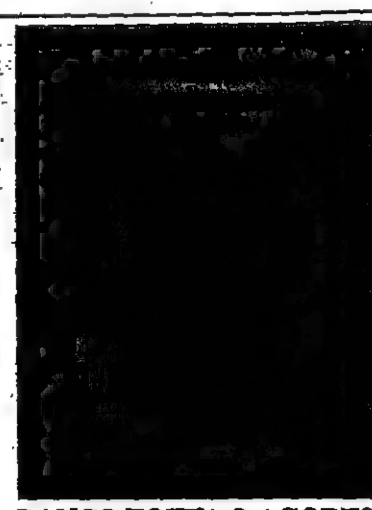


PEARSON plc

Pearson's mission is to be a major international provider of media content, renowned for distinctive products that deliver information, education and entertainment in ways that people want.

WASSALL PLC

Wassall PLC is an industrial company whose sales have risen from £8.0m to £972.9m since its relaunch by the current management team in September 1988. Major subsidiaries include General Cable Corporation, one of the largest producers of copper wire and cable for electrical installations and communications in the USA and DAP, a market leader in the production of adhesives and sealants for DIY markets in North America. MCG Closures is a major manufacturer of bottle closures in Europe, and the market leader in South Africa. Antler is the leading producer of luggage and travel goods in the UK.

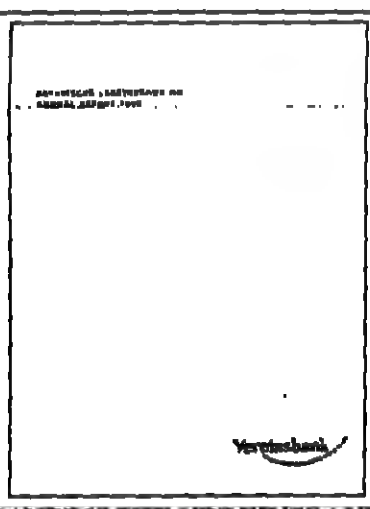


BANCO TOTTA & ACORES

In 1995 BTA's Net Assets and Deposits expanded 12.3% and 11.7%, respectively. In terms of Credit, it should be stressed that Loans and Advances grew 7.3%; mention should also be made to the significant drop in overdue loans while the coverage ratio of overdue loans by credit provisions was close to 100%.

During the year BTA shares continued to show very high liquidity with a frequency rate of 100% and trading volume of PTE 31.1 billion. On February 29, 1995 market value was PTE 176.2 billion.

The dividend paid by share amounted to PTE 190, the highest for the Banking sector in Portugal.



BAYERISCHE VEREINSBANK

With total assets of DM357 bn Vereinsbank is one of the five largest private banks in Germany and the biggest mortgage banking group. In a difficult operating environment Vereinsbank succeeded in increasing its operating profit by 29.9% to DM1,382mn. The driving factors behind this result were a lively mortgage banking business, a satisfying own account trading result, lower risk provisions and a successful cost management (with a cost growth of 6% after 12% in 1994). Earnings per share rose from DM2.38 in 1994 to DM2.52 despite a strong growth of equity capital. That enables Vereinsbank to round up the dividend to DM1.50 per DM5-share.

BMW

In 1995, the BMW Group continued to grow. For the first time, more than one million cars were produced and sold. Sales of BMW and Rover Group vehicles increased despite change-overs at important models. The Company coped well with both the increase in the work force and investment in plant and products.

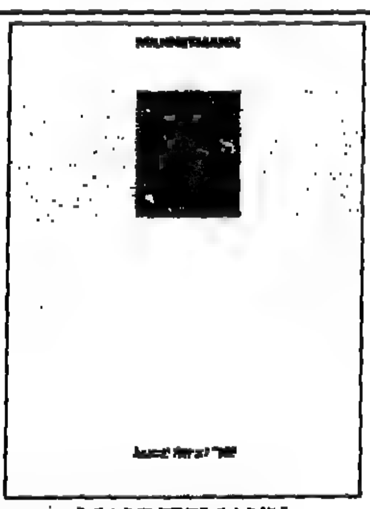
BMW is currently in a phase of particularly high investment expenditure. This is mainly due to the requirements of Rover Group, the construction of the car plant in the United States and the development of the aero engine business. In the long term, this expenditure will open up the estimated opportunities available to a globally active manufacturer with a wide range of cars and advanced aero engines.

CONTINENTAL AKTIENGESELLSCHAFT

The Continental Corporation ranks among the leading international manufacturers of tires and industrial products made from rubber and plastics, and since 1994 has been developing complete automotive systems with growing success. For tires, it is 1st in Germany, 2nd in Europe, and 4th worldwide. A judicious multibrand approach designed to exploit specialized niche markets, stronger emphasis on innovative industrial products, and extensive internal restructuring measures combined to generate rewarding results in 1995: Sales advanced by 3.8% to DM 10.3 billion and net income surged by 119.2% to DM 135 million. The dividend is increased to 10% (DM 0.50 per DM 5 nominal share). Celebrating its 125th anniversary in 1996, Continental expects another successful year.

GEA AG

GEA AG in Bochum, Germany – Process Technology, Thermal and Energy Technology and Air Treatment and Refrigeration – boosted business volume by more than 20%. Sales climbed from DM 3,293 million to DM 4,053 million. Net income for the year improved 12% on the previous year, rising to DM 110.7 million. Cash flow increased by 15% from DM 211 million to DM 242 million. The Group made further progress towards globalization. Today, GEA is represented by 150 companies in 50 countries around the globe. Top priority in 1996 is being given to consolidating the high level achieved and to the continued integration of the groups of companies which GEA has acquired in recent years.



MANNESMANN

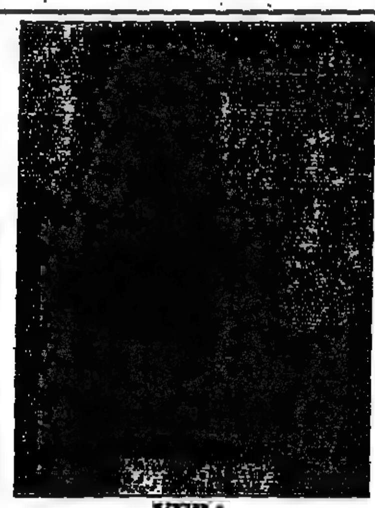
Mannesmann ranks among the world's leading suppliers in the areas of machinery and plant construction, and automotive engineering.

The Group's entry into telecommunications was accomplished by a pioneering feat: Mannesmann developed Germany's first private mobile radiophone network, D2. Mannesmann Mobilfunk today figures among the leading network operators according to the GSM standard established both in Europe and worldwide.

In 1995, Mannesmann's sales rose 6 per cent to DM 32 billion, net profit more than doubled to DM 701 million, mainly on the strength of its telecom business

SCHERING

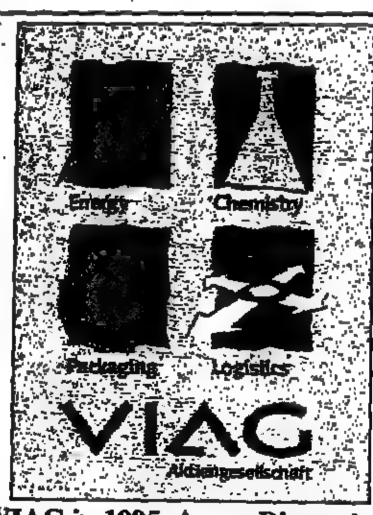
Schering celebrates its 125th anniversary this year. The history of our company has been shaped by a succession of outstanding ideas. Schering is a research-based pharmaceutical company with more than 100 subsidiaries and affiliated companies worldwide. Our key features today are internationality, expertise and specialisation on three business areas - diagnostics, gynaecology and therapeutics. Main financial data: With a workforce of 19,083, Schering Group sales in 1995 amounted to DM 4,647 m, 85% of which were made outside Germany. Schering spent DM 845 m on research and development, which is 18% of Group sales revenue. At DM 248m, Group profit was 13% lower than in 1994. Earnings per DM 5 share amounted to DM 4.30 (1994: DM 4.60).



VEBA

Enhancing Value by Shaping Change

VEBA, Germany's 4th largest company, is active in the fields of Electricity, Chemicals, Oil, Trading/Transportation/Services and Telecommunications. Our decentralized management structure is designed to allow for fast and flexible response to market opportunities as they arise, and our 1995 results underscore this approach: approx. 125,000 employees worldwide achieved record DVFA/SG earnings of DM 2.1 billion (1994: DM 1.5 billion); earnings per share rose from DM 3.13 to DM 4.33, and the dividend was increased from DM 1.50 to DM 1.70. Our strategic goal remains anticipating change early on and actively shaping it, in order to develop new potential for VEBA as well as create further value for our



VIAG in 1995: A new Dimension

VIAG achieved a new dimension in 1995: group turnover amounted to almost DM 42 billion and profit for the year stood at DM 1.3 billion. This was also appreciated by the stock exchange: the price of VIAG shares rose by more than 20 per cent, making VIAG one of the top performers in the DAX index.

Outlook for 1996:

1996 will see continued strategic development of the group. This will include targeted rounding-off in the core sectors of energy, chemistry, packaging and logistics and rapid expansion of telecommunications activities, in which VIAG cooperates with BT and RWE.

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- 4. ☐ British-Borneo Petroleum Syndicate plc
- 5. ☐ Guardian Royal Exchange plc
- 6. ☐ Pearson plc
- 7. ☐ Wassall plc
- 8. ☐ Banco Totta & Acores
- 9. ☐ Bayerische Vereinsbank
- 10. ☐ BMW
- 11. ☐ Continental Aktiengesellschaft
- 12. ☐ GEA AG
- 13. ☐ Mannesmann
- 14. ☐ Schering
- 15. ☐ Veba
- 16. ☐ Viag

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'No drop' seen in US gold production hedging

By Kenneth Gooding, mining correspondent, in Venice

There has been no drop in total hedging by north American gold producers in spite of some liquidation of forward sales by two of the biggest: Barrick Gold, Placer Dome, according to Mr Ted Reeve, analyst at Scotia Capital Markets, who has been tracking hedging trends for more than 5 years.

While Barrick and Placer were giving maximum publicity to their partial withdrawal from hedging, two other North American companies, Amax Gold and Santa Fe Gold, were quietly increasing their activities, he pointed out at yesterdays Financial Times World Gold Conference.

He said total hedging levels in North America would probably rise a little over time and there would also be a gradual shift to more flexible arrangements in which producers could hedge a portion of their production out over the longer term.

Mr Reeve said the North American gold industry at present had hedged 43 per cent of expected output at an average of US$410 troy ounce for 1996 and was 33 per cent hedged at US$422 for 1997.

Compared with this the Australian industry could look forward to receiving an average of US$510 an ounce for its hedged production this year.

At present production levels Australian gold producers had on average 28 months or 630 tonnes of output hedged. This compared with 300 tonnes or 15 months in 1991 and 1993.

Australian hedging was on the rise in spite of a number of smaller companies and Placer Pacific liquidating part or all of their forward sales positions recently.

At the other end of the hedging spectrum from the Australians, South Africa had hedged less than 200 tonnes or 6 months output before two big programmes at the end of last year doubled those totals.

Mr Reeve said that it would be foolish to believe that the two contracts, by Beatrix and Western Deep Levels, would be isolated events. "We expect South African hedging to rise," he said. "We think even those producers currently not hedging in South Africa will be converted to this activity."

Mr Mark Keatley, chief financial officer Ashanti Goldfields, pointed out that income from hedging helped gold companies generate the huge cash flows that were their main source of income: US$2.9bn last year.

He insisted hedging, if done professionally by skilled people, "can be done with minimal disturbance to the gold market".

Mr Keatley said the industry spent about $5bn last year – $2bn to mine gold, $500m on exploration and $2.5bn "buying each other". There 60 gold company acquisitions in the past two years. The industry last year raised about $1bn from hedging and a similar amount from borrowing. He suggested gold companies should diversify the range of financial measures they used to include more syndicated loans and bonds, including convertible bonds.

Gold equity markets were not very liquid, Mr Keatley pointed out, the entire industry (excluding junior explorers) had a market capitalisation of only $83bn compared with Coca Cola's $117bn.

Mr Andy Smith, precious metals analyst, Union Bank of Switzerland, said the central banks that provided liquidity for gold hedging by their lending could be expected to provide more gold in future. He dismissed fears that there would be a liquidity shortage in future and said there was no need for the market to turn to private gold holders for liquidity.

The case against hedging was put by Mr Geoffrey Campbell, senior fund manager, Mercury Asset Management. He pointed out that "gold shares are not for widows and orphans. They are suitable for rich people who can afford to get a little poorer but not for poor people who want to get rich. I believe these investors not only have a high risk tolerance, they actually seek gold price risk".

Mr Campbell said there was a direct conflict of interest between this type of shareholder and lenders to gold companies who wanted to minimise their risk by encouraging companies to hedge.

The company that sold its gold forward sent a message to shareholders that it lacked confidence in the future of the very metal that was its life blood.

Hedging also suggested to shareholders that a projects economics were fragile. And it encouraged companies to keep on mining gold when would be better to be left in the ground. "Extracting gold when it has a negative net present value is pure wealth destruction to shareholders."

● A call for the European Monetary Institute to make public its intentions about the role of gold as a reserve asset for the European Central Bank (ECB), came at the conference from Mr Robert Guy, a director of N.M. Rothschild. "Political independence does not obviate the need for accountability," he said.

Mr Robert Rubin, executive vice-president, AIG Trading Group insisted "the birth of the ECB and what it all means for gold will have everyone rattled for the next few years. The biggest anxiety was that European Central Banks would rush to reduce their gold holdings and to raise cash from them before the ECB began operations.

Mr James Cross, a director of Crosswords Research and Consulting said if some gold was transferred to the ECB it would give the bank added credibility. It would also signal that gold still had a role in the world's monetary system.

Mr Alan Baker, executive director, Deutche Bank Sharps Pixley, pointed out that the gold market had shown the capacity to absorb large additional quantities of the metal without disruption to the price and demand for physical gold was likely to continue at a high level. This suggested gold would continue to trade between US$395 and $415 an ounce.

In spite of recent negative news from the South African gold industry, the biggest in the world, it was by no means close to death or collapse, insisted Mr Tom Main, chief executive of the South African Chamber of Mines. If cost and revenue constraints improved there was every possibility that the gold mining industry would enjoy a renaissance in South Africa.

Indian government grants relief to sugar industry

By Kunal Bose in Calcutta

The Indian federal government has come forward with a major relief measure for the country's cash-strapped sugar factories.

The factories, which of late have been unable to pay money owed to cane suppliers, have been told that between now and the end of the sugar season on September 30 they will be relieved of the statutory obligation to surrender 40 per cent of their production to the state at less than the production cost for distribution through "fair price shops". So the industry's entire production can now be sold in the open market, subject to the monthly release quota.

According to a senior industry official, the concession will help the sugar factories in "clearing at least a good portion of the cane dues amounting to over Rs8bn ($229m)".

He said the factories were required by law to settle cane bills within 14 days; but because of the high levy obligation and poor price realisation caused by bumper production in two consecutive seasons, "the industry's capacity to pay for cane has been badly compromised".

The last thing that the industry wanted, the official said, was unpaid cane bills as the farmers would then grow other crops. But the industry, which would be making a loss of Rs4bn in the current season, was helpless. Mr. Vivek Saraogi, president of the Indian Sugar Mills Association, said that quite a few sugar factories were becoming sick and they would be on the block.

As there is still cane in the field a large number of factories are still working. But crushing in India beyond the middle of April is uneconomic because there is a steep decline in the recovery of sucrose from the cane. ISMA spokesman Mr Om Dhanuka said the country's sugar production would be a record at over 16m tonnes, compared with an earlier estimate of 15.8m tonnes.

Mr Deve Gowda, prime minister, agreed with the ISMA and the National Federation of Co-operative Sugar Factories that the industry should get a further export quota of 1m tonnes. It has almost used up the existing export quota of 1m tonnes, which was sanctioned in instalments. The industry was confident that if the sanction came through quickly, then the Indian Sugar & General Industry Exim Corporation should be able to ship out the major part of the extra export quota by the end of September, said Mr Dhanuka.

The government also promised to allow the transfer of an additional 1m tonnes to the sugar buffer stock, which was created on January 10, 1996 with 500,000 tonnes. As the government pays for the interest, storage and insurance costs of the buffer administration, raising of the buffer size by 1m tonnes would give the industry considerable relief.

Plant resources plan agreed to 'enhance world food security'

By Geoff Tansey

The first Global Plan of Action to conserve and improve the use of plant genetic resources for food and agriculture was finally adopted in the early hours of Sunday morning by 150 governments in Leipzig.

Agreement came after "a very hard week of negotiations", according to Mr Cary Fowler, secretary of the International Technical Conference on Plant Genetic Resources. The outcome was in doubt until the final hours as wrangling over funding and farmers rights held up agreement.

The plan is designed to "enhance world food security" by preventing genetic erosion and encouraging diversity. This means "combining the best of traditional knowledge and modern technology" and ensuring "access to and sharing of both genetic resources and technologies" according to the "Leipzig Declaration" agreed at the conference, which was organised by the UN Food and Agriculture Organisation and hosted by the Federal German Government.

The plan contains 20 priority activities including a much greater commitment than in the past to on-farm conservation and development of plant varieties as well as *in situ* conservation of wild plants important for foods. It also calls for a new partnership between farmers, genebanks and scientists to secure the holdings in the genebanks and to make them of greater practical use.

A new initiative to make locally-adapted varieties available to farmers from genebanks after disaster, war or civil conflicts should save lives and aid money, believes Mr Fowler. The GPA also recommends a major programme to rescue current genebank collections that are in danger of losing up to half their materials. This would transform the current diverse, poorly co-ordinated, often inefficient and frequently redundant efforts into a rational, effective and sustainable system. An essential part of this involves improving information about what is in the various genebanks.

Much of the world's rural population depends for its food security on its own farm-saved seed. The GPA aims to strengthen local capacity to produce, distribute and market farm-saved seed of crop varieties essential for local food security. Many species used for food are neglected in formal plant breeding, especially those used by farmers in marginal areas.

About 1.4bn of the world's poorest people – 100m in Latin America, 300m in Africa and 1bn in Asia – live in areas where locally adapted crops are of the greatest importance. "In more marginal areas there is definitely a market failure" in plant breeding says Dr Geoff Hawtin, director general of the International Plant Genetic Resources Institute in Rome. He welcomes the GPA's adoption and sees it as a major step towards increasing the public consciousness of the issues.

"There is now a Global Agreement on what needs to be done. Next we need a global agreement on how to do it and how to fund it," he says. He expects the first effects to be within countries as ministries argue for more funding for plant genetic resource conservation and use. The log-jam over who will provide what new funding is unlikely to be broken until a revised International Undertaking on Plant Genetic Resources is agreed. This is due to be discussed in December and should provide a legal framework governing access to plant genetic materials. The OECD countries are reluctant to agree funding until it is clear who will have access to plant germplasm, under what terms, and precisely what it is they are committed to. Developing countries have said that there is little point in making plans unless more funding is available.

A more open debate about farmers' rights that clarifies their meaning and suggests how they may be implemented is needed, says Dr Hawtin.

Although the major division over who controls plant genetic resources is still largely a north-south split, the conference had shown that "what we are beginning to see is much more complex than a north-south confrontation", said Dr Hawtin. There were differences between Europe and the US and between different developing countries. These related to how gene-rich they were in both plant varieties and breeding histories as well as in how far they have commercial or small farmer agriculture, he said.

Copies of the Plan of Action are available from the Secretariat for the International Conference on Plant Genetic Resources, FAO, Viale delle Terme di Caracalla, 00100 Rome, Italy. Fax: +39 6 522 55535.

Windwards buys bananas

By Canute James in Kingston

A deterioration in the quality of its bananas has forced the Windward Islands, Britain's main supplier, to buy fruit from Latin American producers to meet sales commitments.

The quantity being bought has not been disclosed, but the Windward Islands Banana Development and Exporting Company says only 60 per cent of the region's bananas are getting the premium price paid by UK supermarket chains.

JOTTER PAD

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1474-75	1511-12
Previous	1479.5-80.5	1515.5-16.5
High/low	1466.5/1466	1519/1502
AM Official	1466-66.5	1503-3.5
Kerb close		1513-14
Open int.	236,490	
Total daily turnover	34,921	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1258-63	1293-95
Previous	1255-65	1290-300
High/low		1295/1285
AM Official	1250-60	1290-91
Kerb close		1290-95
Open int.	5,144	
Total daily turnover	806	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	776.5-77.5	786-87
Previous	783.5-84.5	791-92
High/low	776	790/785
AM Official	776-76.5	785-86
Kerb close		786-88
Open int.	33,445	
Total daily turnover	6,790	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7545-55	7660-70
Previous	7615-25	7720-30
High/low	7565	7730/7650
AM Official	7560-70	7665-85
Kerb close		7670-75
Open int.	43,082	
Total daily turnover	18,326	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6180-200	6210-30
Previous	6150-60	6185-90
High/low		6245/6195
AM Official	6165-75	6200-205
Kerb close		6240-45
Open int.	16,086	
Total daily turnover	4,170	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	996-97	1023-24
Previous	998-99	1024.5-25.0
High/low	995	1027/1021
AM Official	995.5-96.0	1022-23
Kerb close		1025-26
Open int.	70,491	
Total daily turnover	12,246	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1864-69	1796-97
Previous	1985-90	1888-90
High/low	1870	1870/1795
AM Official	1865-70	1798-800
Kerb close		1815-18
Open int.	191,788	
Total daily turnover	122,875	

■ LME AM Official £/$ rate: 1.5390
LME Closing £/$ rate: 1.5395

Spot: 1.5403 3 mths: 1.5397 6 mths: 1.5403 9 mths: 1.5418

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	100.00	-5.70	100.50	96.00	721	1,136
Jul	89.30	-1.90	92.00	87.50	7,227	10,924
Aug	88.45	-1.55	89.50	86.50	52	1,003
Sep	87.20	-1.00	90.20	84.60	8,063	15,851
Oct	87.40	-0.80	87.80	85.30	19	1,056
Nov	87.05	-0.80	85.50	85.00	7	853
Total					18,888	55,954

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	384.10-384.50		
Opening	384.70-385.10		
Morning fix	383.70	249.335	485.304
Afternoon fix	384.20	249.335	485.053
Day's High	384.70-385.10		
Day's Low	383.60-384.00		
Previous close	383.50-383.80		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.31	6 months	4.17
2 months	4.30	12 months	4.04
3 months	4.27		

Silver Fix	p/troy oz.	US cts equiv
Spot	331.60	510.60
3 months	335.65	516.65
6 months	339.85	523.40
1 year	348.00	538.75

Gold Coins	$ price	£ equiv.
Krugerrand	380-385	246-251
Maple Leaf	394.95-397.40	
New Sovereign	88-91	57-59

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	384.7	-	384.8	383.7	11	32
Jul	385.3	-0.1	-	-	-	-
Aug	386.7	-0.1	387.1	385.5	27,780	88,051
Oct	389.5	-0.1	390.0	388.5	470	7,699
Dec	392.2	-0.1	392.8	390.9	3,208	37,842
Feb	394.9	-0.1	394.1	394.1	98	8,405
Total					34,085	193,602

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	394.9	+0.3	398.5	393.5	3,770	7,828
Oct	397.0	+0.2	397.5	395.0	2,613	15,632
Jan	400.0	+0.2	398.0	398.0	39	1,662
Apr	403.0	+0.2	401.5	401.5	105	2,102
Jul	406.3	+0.2	-	-	1	28
Total					6,898	27,289

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	131.40	+0.65	129.80	129.50	-	23
Sep	131.90	+0.85	131.25	130.00	964	6,888
Dec	132.80	+0.85	132.25	130.75	11	815
Jun	134.05	+0.85	-	-	-	105
Total					978	7,882

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	513.0	+3.0	-	-	2	1
Jul	513.5	+2.8	518.5	507.5	15,221	44,891
Aug	516.2	+2.5	-	-	17	-
Sep	519.1	+2.7	521.0	513.0	8,814	35,484
Dec	527.2	+2.8	529.0	522.0	2,042	16,331
Mar	535.4	+2.8	536.5	530.5	[illegible]	[illegible]
Total					25,896	112,891

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	20.06	+0.16	20.10	19.75	29,986	88,128
Sep	19.41	+0.09	19.46	19.20	8,809	41,108
Oct	18.92	-	18.99	18.82	3,319	26,539
Nov	18.66	+0.03	18.70	18.57	930	22,251
Dec	18.50	+0.03	18.60	18.34	1,716	33,730
Jan	18.28	-0.06	18.28	18.20	[illegible]	21,164
Total					57,800	384,848

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	18.20	+0.14	18.20	17.95	8,303	68,756
Sep	17.79	+0.19	17.79	17.55	3,633	27,049
Oct	17.60	+0.12	17.60	17.30	1,028	18,836
Nov	17.24	+0.06	17.24	17.13	81	5,425
Dec	17.14	+0.12	17.14	16.96	617	12,158
Jan	16.92	+0.04	16.92	16.83	516	12,131
Total					1,880	161,250

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	51.55	+0.19	51.70	50.80	8,597	15,450
Aug	52.00	+0.24	52.15	51.25	5,217	20,052
Sep	52.60	+0.34	52.60	51.80	1,447	9,534
Oct	53.05	+0.24	53.10	52.40	436	5,479
Nov	53.60	+0.24	53.60	53.00	392	6,754
Dec	54.00	+0.09	54.20	53.50	971	18,175
Total					17,488	87,108

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	160.25	-0.25	160.25	159.25	6,275	15,147
Aug	158.50	+0.25	159.50	158.25	2,297	12,140
Sep	159.75	+0.25	160.00	158.50	782	7,530
Oct	160.25	-0.25	160.25	160.00	37	3,134
Nov	160.75	-0.25	161.25	161.00	18	1,530
Dec	161.25	+0.25	161.50	160.50	285	9,575
Total					9,886	54,620

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.647	+0.007	2.680	2.625	23,800	17,335
Aug	2.690	-0.013	2.725	2.665	10,498	38,862
Sep	2.712	-0.009	2.730	2.690	3,581	20,816
Oct	2.715	-0.004	2.730	2.705	3,852	17,118
Nov	2.729	-0.005	2.745	2.720	1,988	12,210
Dec	2.765	-0.005	2.775	2.755	1,689	15,038
Total					85,300	169,726

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	58.50	-0.24	59.00	58.20	10,248	18,359
Aug	58.30	-0.02	58.50	58.05	5,185	20,036
Sep	57.55	+0.18	57.60	57.25	1,233	6,774
Oct	55.50	+0.13	55.50	55.30	302	3,100
Nov	54.75	-	54.75	54.75	249	1,205
Dec	53.30	+0.03	53.40	53.30	87	1,537
Total					17,868	52,538

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	113.25	-2.00	114.00	113.50	18	498
Sep	112.15	-0.35	112.00	112.00	30	385
Nov	113.90	-0.35	114.00	113.90	117	2,876
Jan	115.90	-0.20	116.00	116.00	55	1,083
Mar	117.90	-0.10	118.00	118.00	10	394
May	119.90	-0.10	120.00	120.00	10	135
Total					165	5,398

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	499.50	+8.25	502.50	489.50	5,836	23,950
Sep	503.00	+8.00	506.00	492.00	4,976	26,832
Dec	514.00	+8.75	515.50	502.00	4,384	22,878
Mar	514.25	+10.25	518.50	502.00	372	3,189
May	480.00	+5.00	476.00	476.00	-	115
Jul	435.00	+2.00	435.00	428.50	60	1,738
Total					18,200	78,804

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	466.25	-3.75	469.75	460.00	24,711	67,968
Sep	389.50	+2.75	390.00	377.50	12,345	67,632
Dec	358.75	-0.75	356.00	349.75	32,308	167,013
Mar	361.50	-0.25	362.50	354.50	1,810	23,231
May	363.50	-0.25	364.50	357.50	680	4,330
Jul	362.00	-	362.50	355.00	264	4,870
Total					72,386	340,430

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	104.25	-0.75	105.00	104.50	-	73
Nov	106.45	-0.75	108.75	108.75	30	722
Jan	108.50	-0.70	108.90	108.90	6	141
Mar	110.40	-0.60	110.90	110.90	6	41
May	112.00	-	-	-	-	6
Total					44	983

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	777.75	-14.00	789.00	770.00	13,341	32,036
Aug	773.75	-14.25	786.00	768.25	3,986	24,204
Sep	760.50	-12.00	764.00	753.50	922	8,770
Nov	750.25	-12.25	760.00	742.00	29,398	99,832
Jan	757.75	-12.00	771.00	750.50	486	7,784
Mar	765.00	-11.50	768.00	766.50	478	3,965
Total					48,732	184,898

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	25.44	-0.33	25.46	25.12	6,223	18,267
Aug	25.59	-0.37	25.70	25.37	2,300	18,675
Sep	25.82	-0.37	25.90	25.57	2,284	8,594
Oct	25.98	-0.38	26.07	25.78	400	6,580
Dec	26.28	-0.36	26.40	26.00	6,191	27,731
Jan	26.38	-0.38	26.52	26.26	295	2,172
Total					18,272	86,438

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	243.6	-3.0	245.1	239.8	13,739	28,604
Aug	243.5	-2.9	247.0	239.3	5,803	17,709
Sep	241.2	-2.9	242.5	236.5	1,525	9,271
Oct	236.9	-3.3	238.5	234.5	445	5,002
Dec	236.4	-3.5	240.0	233.9	8,192	24,898
Jan	236.5	-2.6	238.7	233.5	36	2,357
Total					29,294	89,910

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	85.8	-	-	-	-	-
Mar	110.0	-	-	-	-	-
Apr	145.5	-4.0	154.0	148.0	167	1,212
May	168.0	-	-	-	-	3
Jun	162.5	-	-	-	-	-
Total					167	1,218

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	1217	-7	1230	1210	12	538
Jul	1150	-	1150	1145	25	2,030
Aug	1146	-5	1145	1145	20	285
Oct	1261	-6	1260	1260	10	1,450
Jan	1270	-5	-	-	-	225
Apr	1275	-7	-	-	-	81
Total					47	4,660

	Close	Prev
BFI	1225	1232

FUTURES DATA
All futures data supplied by CMS.

Tea
There was less demand this week reports the Tea Broker's Association, a few selected brighter East Africans were firm to dearer but the majority lost 2-6p/kg.. Mediums also came to an easier market losing 3-6p/kg, where sold. Offshore fairly good competition but at generally easier rates. Quotations: best available: 130p/kg, good: 120p/kg, good medium: 112p/kg, medium: 105p/kg, low medium: 82p/kg. Note the highest price realised this week was 130p/kg for a Kenya pf.1.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1085	+2	1085	1069	672	7,436
Sep	1114	+1	1114	1095	1,577	43,332
Dec	1054	+2	1055	1098	1,180	41,885
Mar	1059	+3	1060	1035	964	42,198
May	1081	+5	1080	1046	254	20,282
Jul	1072	+5	1071	1060	107	10,491
Total					4,482	178,789

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1388	-	1385	1380	28	543
Sep	1422	+3	1425	1392	3,466	34,536
Dec	1444	+3	1444	1421	880	20,088
Mar	1460	+3	1462	1438	787	13,541
May	1473	+3	1465	1470	29	6,672
Jul	1485	+3	1490	1480	20	5,702
Total					5,161	86,774

■ COCOA (ICCO) (SDR's/tonne)

Jun 21	Price	Prev. day
Daily	1072.30	1081.85

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1833	-5	1835	1797	1,242	6,403
Sep	1787	+12	1789	1745	2,275	11,198
Nov	1763	+13	1750	1714	324	4,842
Jan	1720	+7	1716	1687	92	2,472
Mar	1675	+6	1680	1651	20	686
May	1660	-5	1654	1641	-	60
Total					3,897	26,661

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	122.95	+3.25	124.00	118.80	617	2,290
Sep	117.90	+3.10	118.30	114.25	4,786	14,165
Dec	114.30	+2.65	115.50	111.80	518	4,962
Mar	111.95	+2.05	112.50	109.00	146	1,372
May	111.60	+2.45	111.30	110.00	13	382
Jul	111.10	+2.85	-	-	-	93
Total					6,088	23,212

■ COFFEE (ICO) (US cents/pound)

Jun 21	Price	Prev. day
Comp. daily	105.55	107.76
15 day average	106.21	106.77

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	352.7	-0.9	355.5	350.0	889	8,240
Oct	340.8	+0.1	350.2	346.0	349	7,308
Dec	335.8	-0.7	330.7	334.0	189	4,083
Mar	330.0	-1.8	331.3	327.8	254	4,158
May	330.0	-1.8	330.0	328.0	70	2,120
Aug	326.8	-1.6	-	-	-	751
Total					1,995	28,316

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	11.84	-0.19	12.13	11.70	14,855	21,695
Oct	11.23	-0.16	11.42	11.09	19,977	86,250
Mar	10.88	-0.17	11.00	10.74	8,811	36,776
May	10.63	-0.17	10.78	10.56	1,079	12,393
Jul	10.48	-0.18	10.63	10.47	389	10,888
Oct	10.36	-0.16	10.52	10.35	171	4,506
Total					[illegible]	[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	73.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	73.70	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	76.45	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	77.30	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	77.60	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	78.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	121.65	-0.75	122.00	121.25	971	4,741
Sep	118.60	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	116.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	116.20	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	117.20	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	117.20	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jun 24	Jun 21	month ago	year ago
2003.9	2019.6	na	2290.3

■ CRB Futures (Base: 1967=100)

Jun 21	Jun 20	month ago	year ago
248.61	249.26	na	na

■ GSCI Spot (Base: 1970=100)

Jun 21	Jun 20	month ago	year ago
200.97	200.62	209.73	175.16

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	63.025	+0.35	63.200	62.425	1,393	86
Aug	64.525	-0.750	65.250	64.300	4,866	38,708
Oct	66.575	-0.180	66.950	66.300	1,881	24,363
Dec	64.250	-0.125	64.675	64.000	798	11,295
Feb	63.300	-0.025	63.650	63.100	259	11,755
Apr	66.275	-0.150	66.650	66.050	186	3,450
Total					9,895	89,744

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	58.175	+0.025	58.500	57.100	407	39
Jul	56.300	+0.675	56.550	55.650	2,813	6,334
Aug	53.150	+0.800	53.450	52.650	1,390	11,113
Oct	49.200	+0.825	49.500	48.800	506	5,804
Dec	52.050	+0.825	52.450	51.800	498	6,342
Feb	75.850	+0.150	75.700	75.280	292	1,799
Total					6,109	34,813

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	72.700	+2.000	72.700	70.800	1,326	3,261
Aug	70.300	+1.700	70.800	68.400	1,880	3,336
Feb	76.800	+0.475	77.700	76.450	180	894
Mar	77.875	+0.275	77.700	77.900	18	60
May	76.550	+1.025	76.400	76.400	1	53
Total					3,161	7,697

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1400	88	170	-	25
1500	13	105	24	57
1600	-	60	111	106
■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
1700	201	226	7	67
1800	120	172	25	130
1900	60	120	80	184
■ COFFEE LCE	Jul		Jul	
1800	107	-	-	-
1850	60	-	1	-
1900	18	-	11	-
■ COCOA LCE	Sep	Dec	Sep	Dec
1050	27	-	-	-
1075	7	-	5	-
1100	1	-	24	-
■ BRENT CRUDE IPE	Aug	Sep	Aug	Sep
1750	-	-	15	50
1800	38	40	40	-
1850	20	23	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

		+or-
Dubai	$17.03-7.11	+0.040
Brent Blend (dated)	$18.38-8.40	-0.030
Brent Blend (Aug)	$18.17-8.19	+0.025
W.T.I.	$20.08-0.09x	+0.125

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

		+or-
Premium Gasoline	$201-203	[illegible]
Gas Oil	$163-164	[illegible]
Heavy Fuel Oil	$85-87	[illegible]
Naphtha	$170-172	[illegible]
Jet fuel	$183-185	[illegible]
Diesel	$164-165	[illegible]

■ NATURAL GAS (Pence/therm)

		+or-
Bacton (Jul)	12.70-13.50	-0.10

■ OTHER

		+or-
Gold (per troy oz)♦	$384.30	+0.85
Silver (per troy oz)♦	[illegible]	[illegible]
Platinum (per troy oz.)	[illegible]	[illegible]
Palladium (per troy oz.)	[illegible]	[illegible]
Copper	107.2m	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.18r	
Tin (New York)	290.50	+1.00
Cattle (live weight)	98.29p	-3.37*
Sheep (live weight)	113.69p	-8.15*
Pigs (live weight)	114.40p	+0.82*
Lon. day sugar (raw)	$307.0y	+7.50
Lon. day sugar (wte)	$365.00	-3.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Jul)♦	89.00p	-1.25
Rubber (Aug)♦	89.00p	-1.25
Rubber (KL RSS No1)	350.0m	-1.0
Coconut Oil (Phil)§	$770.0w	-5.0
Palm Oil (Malay)§	$492.5z	+15.0
Copra (Phil)§	$501.0w	
Soyabeans (US)	$219.0	-4.0
Cotton Outlook 'A' index	81.05c	-0.40
Wooltops (64s Super)	426p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. [illegible] ♦ London Physical. § CIF Rotterdam. ♦ Bullion market close. * Change on week, [illegible]

CROSSWORD

No.9,103 Set by GRIFFIN

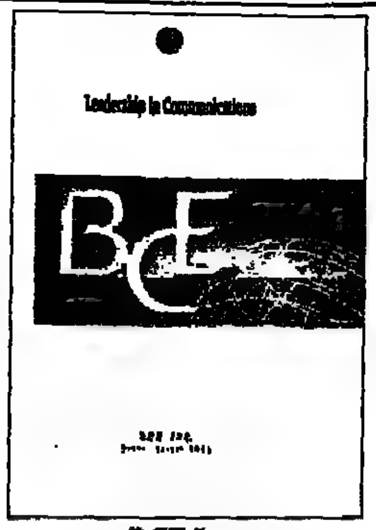
ACROSS
1 Controller having stopped is put in again (11)
7 Put on donkey but not essential (3)
9 Suggest one member left and said why (6)
10 Having broken oar change where vessel stays (9)
11 Before parking vehicle set down one picking up plane? (9)
12 Bolt back gate post back (5)
13 Help famous fiddler holding barometer (7)
15 Sweetheart rejected crackers and cheese (4)
18 What model does, having dropped ring behind a recess (4)
20 Late yet changing baby's clothes (7)
23 Free toilets on Eastbourne front (5)
24 Heard you are being silly about fruit (9)
26 Bank customer is to drop faulty key in (9)
27 Unsuitable, it holds a writer back (5)
28 Some rehearse on an organ (3)
29 Remembered to save water plant container (11)

DOWN
1 Waterproof garment for artist using plaster (8)
2 Given one million, split up (8)
3 Pen, the continental shape (5)
4 Looked for at a wide opening (7)
5 Swiss water plant (7)
6 Desert traveller many may order around (9)
7 Tease fellow about intimidating woman (6)
8 Swallowing ice upset one's topless relatives! (6)
14 Bully crowd if not after work (9)
16 Harsh step by conservationists (8)
17 Overwhelmed by document accepting achievement (8)
19 Like springs in the last ice age? (7)
20 Member's bill is running out of time (7)
21 Slot half inch below toboggan (6)
22 Penny, perhaps, wanted man in uniform (6)
25 God is bearing up (5)

Solution to Saturday's prize puzzle on Saturday July 6.
Solution to yesterday's prize puzzle on Monday July 8.

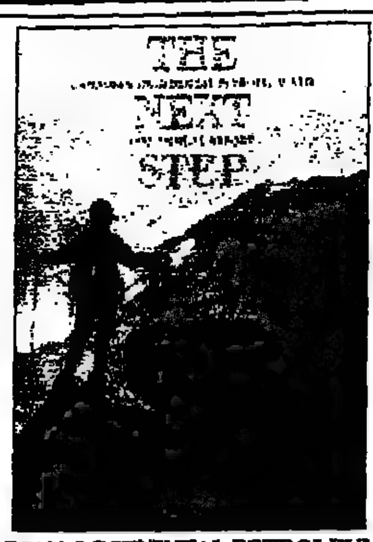
هكذا من الأصل

Financial Times Annual Report Service



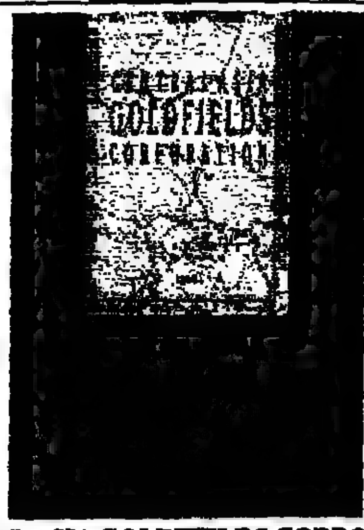
BCE Inc.

BCE Inc. is Canada's largest telecommunications company. Its subsidiaries and associated companies, including Bell Canada, provide telecommunications services to some 70 per cent of the Canadian population. Subsidiary Nortel is a world leader in the provision of digital networks, while BCE Mobile provides cellular and paging services. Bell Canada International manages some $2.1 billion in international investments. Tele-Direct companies provide directory services in Canada and overseas. BCE has the largest number of registered shareholders of any Canadian corporation.



CANADIAN OCCIDENTAL PETROLEUM LTD.

CanadianOxy is a rapidly growing, financially strong, global energy and chemicals company. In operation since *1971*, Canadian Oxy *is listed on The Toronto Stock Exchange, the Montreal* Exchange and the American Stock Exchange. The Company is organized into three autonomous, bottomline-oriented business units: International Oil & Gas, North American Oil & Gas and Chemicals. We have oil and gas production operations in 6 countries and exploration projects in 9 countries. Oil and gas reserves have increased more than 80% since 1990 to over 680 MMbbls equivalent and production, *funds flow and net income have grown rapidly. Our Chemicals* operations supply sodium chlorate, chlorine and caustic soda to North American pulp and paper, water purification and plastics industries. Sodium chlorate production capacity has been significantly expanded to capitalize on growing demand.



CENTRAL ASIA GOLDFIELDS CORPORATION

Central Asia (CGZ-ME) is a new public company, sponsored by Rothschild Emerging Markets Funds. Extensive mineral exploration and development rights have been acquired in Kazakstan. The Company has entered into 3 JV agreements with local private corporations, whereby CAGC may earn a 50% to 70% interest in various gold properties. The lands covered exceed 11 million acres of highly prospective, exploration ground with a number of identified gold targets. A $7M exploration program, using up to 7 drill rigs, has been approved for this year.

DRECO ENERGY SERVICES LTD.

Dreco Energy Services Ltd. designs, manufactures, and sells or rents machinery, equipment and downhole products for the use in the drilling and servicing of *oil gas* wells internationally. More than 2/3 of Dreco's revenue is derived from demand outside North America.

Over the past ten years Dreco has increased revenue four fold through internal growth while over the same time frame the number of active drilling rigs worldwide has halved.

Trailing 12 month revenue has been U.S. $102.0 million, trailing 12 month fully diluted earnings per share have been U.S. $1.36 and the return on average shareholders' equity over the past 12 months has been 21%. Dreco stock trades on NASDAQ, symbol DREAF and the Toronto Stock Exchange, symbol DRE.A.

ELDORADO GOLD CORPORATION

Eldorado Gold Corporation is an international gold mining company based in Vancouver, Canada, *whose shares trade on the Toronto Stock Exchange under the symbol "ELD". Eldorado operates* three gold mines, the La Colorado and La Trinidad in Mexico and the São Bento mine in Brazil. The Company also has a 19% attributable interest in Croesus Mining NL which operates the Bindall Mine complex in Western Australia. In addition, the Company is actively exploring and developing three gold projects in Turkey and one gold project in Brazil. The Company is forecast to produce *165,000 ounces of gold in 1996, on a pro forma basis, at an average cost of approximately* US$264 per ounce. Gold production is expected to increase to over 250,000 ounces in 1998 at a cash cost of US$231. The Company's gold resources are currently 4.7 million ounces of which 2.8 million ounces are classified as proven and probable reserves.

TECK CORPORATION

MINING FOR THE FUTURE

Teck Corporation is a (Cdn) $3 billion company producing GOLD, COPPER, COAL, ZINC and NIOBIUM from interests in 12 mines in Canada and Chile.

Teck is a mine developer with an exceptional record of on-time, on-budget construction, and an operating team with a reputation for successful turnarounds.

With exploration activities around the world, from West Africa through Central Asia, Indonesia, Mexico, Panama, Chile, Peru, Argentina and Brazil to North America, Teck is committed to continued shareholder growth, and to be

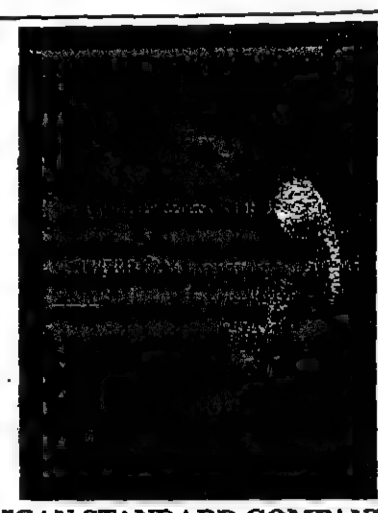
THE PARTNER OF CHOICE IN THE MINING INDUSTRY

GRUPO CYDSA

Cydsa is a mexican industrial group which operates in very diversified sectors as textile, fibers, apparel, packaging, chemical and environment. Cydsa is committed to being a World Class Corporation in all the markets in which it operates. This important group produces more than 200 products and services and it has modern plants in eight different cities of the mexican country. *Its sales hit a range of 900 million dollars.*

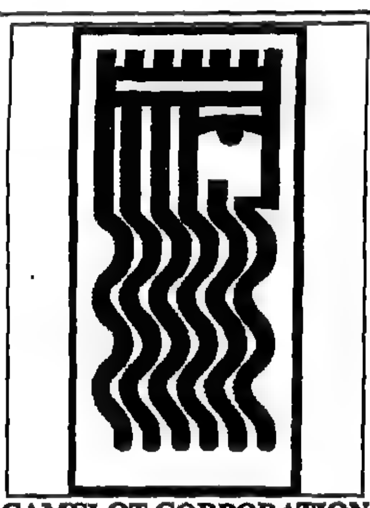
Cydsa's products are also present in the international market, its exports cover more than 60 countries on every continent and today, they represent a 45% of the total sales volume.

The company has an employee's force composed by 10,000 people, all of whom have a serious commitment with the continuous improvement in order to create added value to its customers, stockholders and themselves and to build a World Class Corporation.



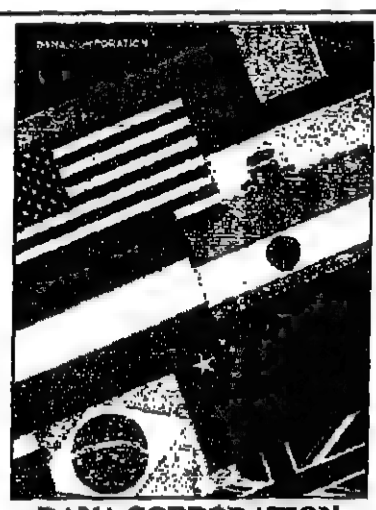
AMERICAN STANDARD COMPANIES INC.

American Standard (NYSE ticker: ASD) is a global, diversified company and, with its 37 joint ventures, *operates 102 manufacturing facilities in 34 countries employing* approximately 43,000 people. ASD develops and manufactures ● Trane® and American Standard® central air conditioning systems for commercial, institutional and residential buildings (59% of sales) ● American Standard®, Ideal Standard®, Standard® and Porcher® bathroom and kitchen fixtures and fittings (24% of sales) ● WABCO® ABS and EBS braking and control systems (19% of sales) for most of the world's leading manufacturers *of commercial* and utility vehicles. ASD is differentiated as a worldwide leader in Demand Flow® Technology, a comprehensive management approach that enhances customer service and achieves a competitive advantage through manufacturing and operating efficiencies.



CAMELOT CORPORATION

Camelot Corporation (NASDAQ: CAML) is a USA holding company focusing on software development and distribution. Its subsidiaries are Third Planet, which publishes DigiPhone software, the complete Internet phone system allowing free long-distance over the Internet (http://www.digiphone.com), Camelot Internet Access Services, an Internet service provider, Camelot Distributing, a CD-ROM *software distributor to independent retailers worldwide, and Mr. CD-ROM Stores,* the first CD-ROM software chain in the world featuring more than 2000 titles and *seeking international master franchises.*

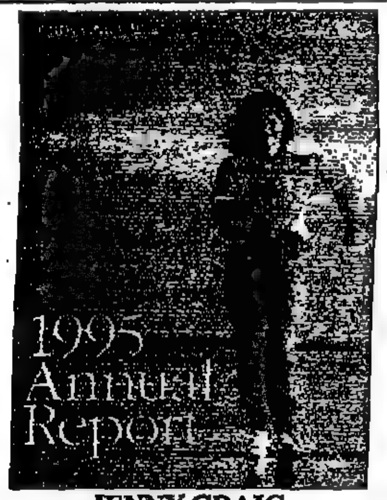


DANA CORPORATION

Dana Corporation, headquartered in Toledo, OH, and with operations in 29 countries, is a global leader in the engineering, manufacturing and distribution of products and systems for the vehicular, industrial and mobile off-highway markets. Dana's 1995 financial performance was outstanding: profits of $288 million, up 26 percent over 1994, and record sales of $7.6 billion, up 15 percent from last year.

ENGELHARD CORPORATION

Engelhard (NYSE) is a world-leading provider of environmental technologies, specialty chemical products, engineered materials and related services. Five straight years of record earnings were marked by a 17% EPS increase in 1995, and dividends have been raised for 13 consecutive years. Stock price climbed 47% last year, producing a five-year cumulative return (including dividends) nearly twice S&P's 500 Index and Dow Jones Chemical Sector. Engelhard's aggressive growth strategy is outlined in this annual review.



JENNY CRAIG

Jenny Craig (NYSE:JC) is one of the largest weight management companies in the world – the only U.S. public company operating exclusively in that field. With approximately 781 Company-owned and franchised centres, Jenny Craig is closely associated with personalized service, lifestyle changes and delicious, high-quality food products. In the 3/31 quarter, JC reported a gain in EPS from $.05 to $.35 and repurchased over 3.5 million shares.

NORFOLK SOUTHERN

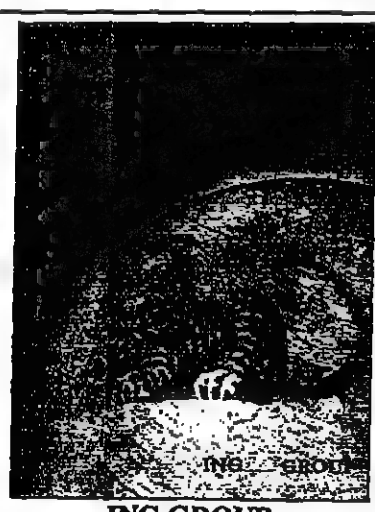
Norfolk Southern Corporation is a holding company that, through subsidiaries, provides rail and truck transportation services and owns natural resource properties. Norfolk Southern's vision is to "be the safest, most customer-focused and successful transportation company in the world." Five-year growth (1995 compared with 1990) saw income from railway operations up 34%, net income up 32%, earnings per share up 63%, return on equity up 40% and safety improvement up 63%.

SONOCO PRODUCTS COMPANY

Sonoco is a growth-oriented, global leader in the packaging industry with a 96-year record of annual sales growth of 13.4% and annual profit growth of 12.6%. Sonoco's 1995 sales were $2.7 billion, 17.7% more than in 1994. And, 1995 earnings per share were 25.2% more than 1994. Net income available to common shareholders was $156.8 million, 28.4% more than 1994. Sonoco is currently working toward achieving VISION 2000, the company's plan to double sales, double earnings and significantly increase shareholder value by the year 2000. Sonoco plans to achieve this objective with an emphasis on internal growth in its diverse range of industrial and consumer packaging products. The company has more than 270 operations in 29 countries. CEO Charlie Coker says: *"Sonoco's continuing passions for satisfying customers and profitable growth will drive higher performance year after year."*

UtiliCorp United (NYSE:UCU)

In 1995 UtiliCorp continued creating America's first national utility by launching EnergyOne℠, the first nationwide brand of electric and gas products and services. It also acquired 49.9% of United Energy, Australia's first privatized electric distribution utility. With sales of $2.8 billion, UtiliCorp markets energy nationally in the U.S., operates utilities in eight states and British Columbia, and has joint ventures in the United Kingdom, New Zealand and Jamaica.



ING GROUP

ING is a company with Dutch roots which has wide experience in the field of *financial services. ING is active on a worldwide scale,* offering its clients a full range of financial products and services through various distribution channels.

The basis of ING Group's continuity is its *financial strength, its healthy profit base,* and careful weighing of the interest of its clients, shareholders and employees. In all its activities ING is aware of its social responsibilities.

Responsiveness to the customer's needs, entrepreneurship, integrity and professionalism are paramount in all the Group's activities

Internet: http://www.ing.nl

The Financial Times Annual Report Service is appearing on 25, 26, 27 & 28 June 1996

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18. ☐ Canadian Occidental Petroleum LTD
19. ☐ Central Asia Goldfields Corporation
20. ☐ Dreco Energy Services Ltd
21. ☐ Eldorado Gold Corporation
22. ☐ Teck Corporation
23. ☐ Grupo Cydsa
24. ☐ American Standard Companies Inc.
25. ☐ Camelot Corporation
26. ☐ Dana Corporation
27. ☐ Engelhard Corporation
28. ☐ Jenny Craig
29. ☐ Norfolk Southern
30. ☐ Sonoco Products Company
31. ☐ Utilicorp United (NYSE:UCU)
32. ☐ ING Group

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INTERNATIONAL CAPITAL MARKETS

Issuers scramble to get dollar deals done

By Conner Middelmann

The eurobond market featured a slew of dollar issues as issuers scrambled to get deals done before the FOMC meeting on July 2 and 3 and US Independence Day on July 4.

A $500m five-year offering for the International Financing Corporation, the World Bank's private-sector lending arm, saw such demand during Asian pre-marketing that launch was brought forward by a day, said J.P. Morgan, joint lead with DKB Bank. It said the deal was fully placed by the time the bonds were priced, yielding 10 basis points over Treasuries.

INTERNATIONAL BONDS

Associates Corp of North America, the diversified US finance company, launched $300m of three-year bonds – its first issue under a recently established $3bn euro medium-term note programme. The bonds, priced to yield 20 basis points over Treasuries, saw good demand from institutional accounts in the UK, France and Germany and Swiss retail, said joint leads Lehman Brothers and UBS.

Philippine Long Distance Telephone Corporation issued a two-tranche $250m global bond: $100m of seven-year paper and $150m of 10-year bonds. The shorter tranche is due to be priced today at an indicated spread of 175-185 basis points over Treasuries, while the longer tranche is to yield 240-250 basis points over – a significant decline from the 340 basis point premium PLDT paid on 10-year bonds last July.

Lehman Brothers, joint book-runner with Citibank, said the bonds saw demand from "cross-over" investors, fund managers who usually buy investment-grade debt but are dipping into the top layers of sub-investment-grade paper to benefit from spread performance and potential rating upgrades.

Also in the dollar sector, the UK's Halifax Building Society issued $200m of three-year bonds aimed at European retail investors. While some dealers argued that the Halifax lacks a large retail following in continental Europe, lead manager Paribas said dollar activity continued to be driven by retail buying of three to five-year paper, and that the recent supply in those maturities had not satisfied demand.

In sterling, two banks launched subordinated, perpetual, callable step-up bonds: Den Danske Bank issued £125m of floating-rate paper at an all-in cost around 60 basis points over Libor, while Société Générale launched £100m of fixed-rate paper yielding 105 basis points over gilts.

Abbey National launched a benchmark deal in the Swiss franc market: SFr300m of three-year paper, with the big three Swiss banks – Credit Suisse, SBC Warburg and UBS – as lead managers to optimise its penetration of that market.

● Moody's Investors Service raised the sovereign ceiling rating of the Republic of Iceland to A1 from A2, due largely to the success of structural reforms in restoring the macro-economic balance in the country.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
AT&T UCCMT 96-2, Cls A(a)‡	950	(a1)	(a1)	Jun 1999	-	-	Lehman Brothers
International Finance Corp	500	6.875	99.77R	Jul 2001	0.25R	+10(6⅝ 5yr)	DKB Intl/JP Morgan Secs
Associates Corp of Nth America	300	6.75	99.838R	Jul 1999	0.20R	+20(6⅞%-99)	Lehman Brothers/UBS
PLDT(l)	150	(b)#	(b)R	Jun 2006	0.875R	(b)(6⅞%-06)	Citibank/Lehman Brothers
PLDT(l)	100	(c)#	(c)R	Jun 2003	0.75R	(c)(l)	Citibank/Lehman Brothers
ING Bank‡	250	(d,l)	99.94R	Jul 1998	0.125R	-	Goldman Sachs/UBS
Halifax Building Society	200	6.625	99.80R	Jul 1999	0.1875R	+10(6⅞%-99)	Paribas Capital Markets
D-MARKS							
Sires (Lines)(e,s)	100	8.25	100.00R	Apr 2005	1.00R	-	Merrill Lynch Bank
SWISS FRANCS							
Abbey Natl Trsy Services(s)	300	4.00	102.25	Dec 1999	1.50	-	Credit Suisse/SBCW/UBS
STERLING							
Den Danske Bank(f)‡	125	(f1)	100.00	Jul 2007	0.79	-	Barclays de Zoete Wedd
Société Générale(g)	100	9.125	99.283R	undated	0.625R	+105(7½%-06)	UBS
FRENCH FRANCS							
DSL Finance(s)	1.5bn	6.75	99.601R	Oct 2008	0.35R	+12(6¾%-08)	Banque Nationale de Paris
McDonalds Corp	1bn	6.75	99.47R	Jul 2006	0.375R	+21(l)	Société Générale
CANADIAN DOLLARS							
Bayerische Landesbank(l)	100	7.25	99.687R	Oct 2001	0.25R	+5(7½%-01)	ScotiaMcLeod
AUSTRALIAN DOLLARS							
Export Development Corp★	150	8.00	100.00	Jul 1999	1.00	-	DKB/Kankaku(Europe)
CZECH KORUNA							
EBRD	1.5bn	11.50	100.00R	Jul 1997	0.15R	-	ING Barings

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) AT&T Universal Credit Card Master Trust. Legal maturity: Jun 2001. a1) Priced later: 3-mth Libor +6-7bp. a2) Class B: $80m, Jun 1999, 3-mth Libor +21bp area. b) Priced today: Treasuries +240-250bp. c) Priced today: Treasuries +175-185bp. d) 6-mth Libor +¼%. e) Secured by Hamburgische LB zero coupon bonds and Argentina $ FRN Brady bonds. Recommended re-offer. f) Callable from Jul 2004 at par. f1) 3-mth Libor +⅜% to Jul 2004, then +1⅞%. g) Callable on 7/12/06 and every 5 yrs at par. If not called coupon steps up to 205bp over the then 5-yr gilt on 7/12/06 and +250bp thereafter. l) Over interpolated yield. l) long 1st coupon. s) Short 1st coupon.

Hanoi gives green light for foreign convertible

By Jeremy Grant in Hanoi

Vietnam has given the go-ahead for the first issue by a local company of convertible bonds overseas, a $5m facility raised by Ho Chi Minh City-based REE Refrigeration. The move marks a significant step for foreign equity participation in Vietnamese companies at a time when the country is still inching towards launching a stock market.

The bonds, to be underwritten by UK-based investment house Dragon Capital, will carry a fixed interest rate of 4.5 per cent a year and be convertible into REE shares in May 1999. There would be a limit on foreign ownership of 10 per cent for corporates and 6 per cent for individuals.

The issue is also significant because Vietnamese law technically forbids foreigners from buying stakes directly in local companies. However, the transaction was cleared by deputy prime minister Phan Van Khai on a trial basis, according to Dragon Capital director Mr Dominic Scriven.

"This is much more beneficial to the Vietnamese than any joint venture. They maintain control and they access cash. If it works well, there's no reason why the initial experience shouldn't be repeated," said Mr Scriven. He expects the deal to close on July 1 and that the bonds will be marketed to "a small number of suitable institutions in the UK, Hong Kong and Vietnam". Proceeds will be used to acquire real estate and for working capital.

REE Refrigeration, which manufactures air conditioners and refrigeration equipment, was one of the first Vietnamese companies to be privatised in 1993, under a pilot privatisation programme which later stalled.

ING Bank raises $250m of Tier 3 floating-rate debt

By Conner Middelmann

ING Bank yesterday became the first bank to take advantage of the European Union's new Capital Adequacy Directive (CAD) to raise Tier 3 debt in the eurobond market.

The Dutch Bank issued $250m of two-year floating-rate notes paying a coupon of 6.25 basis points over the London inter-bank offered rate (Libor).

Banks have traditionally funded their banking and trading activities with Tier 1 capital, which includes equity, cash and non-cumulative perpetual debt, and Tier 2 capital made up of dated subordinated debt and cumulative perpetual debt.

However, under CAD, which was implemented at the beginning of the year, banks can raise Tier 3 capital – unsecured, short-term subordinated capital with a maturity of at least two years – to capitalise their trading book.

CAD stipulates, however, that interest and principal payments on Tier 3 debt must be deferred if payment would mean that the bank falls below its overall minimum regulatory capital requirement.

This condition makes Tier 3 debt riskier for investors, and makes its risk harder to assess by the rating agencies. Neither Standard & Poor's nor Moody's has rated ING's offering. The possibility of deferred interest and principal payments lowers the certainty of timely payment, a key criterion in bond ratings.

However, the absence of a rating did not hinder the successful placement of the deal, the lead managers said.

"We have seen good interest from money funds and corporates – especially companies who have a relationship with ING Bank – who don't usually care about ratings but are keen on an attractive yield pick-up over a short maturity," said a syndicate official at Union Bank of Switzerland, joint lead with Goldman Sachs.

Since the Bank of England and the Dutch central bank have been the quickest in implementing CAD, more Dutch and UK banks could tap the Tier 3 market in coming months, he said.

Uncertainty over interest rates stifles trading

By Richard Lapper in London and Lisa Bransten in New York

Government bond markets played out their equivalent of a score-less draw yesterday, with prices moving in narrow ranges in quiet trading.

Uncertainty about interest rate movements ahead of the meetings of the Bundesbank on Thursday and the FOMC next week, is one of the reasons. Also, in London at least, preoccupation with the European soccer championship and other sporting events is generating a holiday feel to dealings.

■ Publication of lower than expected consumer price data from Baden-Würtemburg, Hesse, Nord-Rhine and Westphalia gave an early boost to the German market, encouraging hopes that headline inflation for this month could fall as low as 1.2 per cent.

Mr Graham McDevitt, international bond strategist at Paribas Capital Markets, said an upward revision in German output figures for April indicated that growth in the second quarter was "looking more solid" and had offset the good news on inflation.

On Liffe, the September bund future gained nearly a quarter point in early trading but met resistance at 95.18 and settled at 95.05, up 0.08.

GOVERNMENT BONDS

■ French bonds drifted slightly lower, with the September Notionnel contract settling at 120.98, down 0.12. In the UK, gilts were helped by the strength of sterling, with the September long gilt settling at 105$\frac{5}{32}$, up $\frac{1}{32}$.

■ High-yielding markets had a mixed day. Sweden outperformed, with the 10-year spread over bunds falling to 170 basis points, down 6 basis points. But both Spain and Italy lost ground against bunds, with spreads over Germany widening by 6 basis points to 237 and 191 basis points respectively.

Analysts attributed the Italian sell-off to the lack of an interest rate cut on Friday and said action is now unlikely before CPI figures for June are released on July 5. On Liffe, the September BTP future settled at 116.30, down 0.13.

■ US Treasury prices were nearly flat in early trading as traders awaited new supply in auctions today and tomorrow.

Near midday, the benchmark 30-year Treasury was down $\frac{1}{32}$ at 88$\frac{15}{32}$ to yield 7.093 per cent, while the two-year note rose $\frac{1}{32}$ to 99$\frac{7}{8}$, yielding 6.293 per cent. The September 30-year Treasury future was flat at 107.

The yield curve between two-year notes and the long-bond steepened by 3 basis points to 80 points. The Treasury will auction $18.75bn in two-year notes today and $12.5bn in five-year paper tomorrow.

Swift signs fund manager for Windows NT link

By George Graham, Banking Correspondent

Swift, the international financial messaging system, has signed up its first fund manager for a new Windows NT link to its network.

Barr Rosenberg European Management, the London arm of Rosenberg, the US quantitative equity manager, is the only fund manager among eight institutions selected to test Swift's new Alliance Entry system, using Windows NT.

The link will allow Barr Rosenberg to exchange information on trades and dividend payments with its 27 custodian banks, with which it must now have 27 separate data links.

Swift has been centred on financial messages between banks, but has been trying to extend its network into the securities industry. On top of its mainframe-to-mainframe links, which were most accessible to banks, it last year added a Unix-based link. It has now added the Windows NT option.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	108.7840	-	8.96	8.92	8.77
Austria		6.250	05/06	98.9000	−0.010	6.56	6.66	6.42
Belgium		7.000	05/06	101.1900	-	6.83	6.87	6.69
Canada *		7.000	12/06	94.0100	+0.200	7.85	7.88	7.71
Denmark		8.000	03/06	103.2400	+0.120	7.51	7.60	7.39
France	BTAN	5.750	03/01	100.1250	-	5.72	5.77	5.58
	OAT	7.250	04/06	104.5800	−0.040	6.60	6.63	6.48
Germany Bund		6.250	04/06	97.5200	+0.120	6.60	6.65	6.45
Ireland		8.000	08/06	101.6300	+0.080	7.75	7.84	7.63
Italy		9.500	02/06	101.3600	−0.080	9.28†	9.52	9.54
Japan	No 140	6.600	06/01	119.0190	−0.060	2.33	2.26	2.51
	No 182	3.000	09/05	98.1913	+0.210	3.26	3.20	3.24
Netherlands		6.000	01/06	96.2500	+0.080	6.53	6.58	6.33
Portugal		11.875	02/05	0.0000	-	8.87	8.93	9.05
Spain		8.800	04/06	98.8800	−0.200	8.96	9.19	9.18
Sweden		6.000	02/05	85.1303	+0.334	8.31	8.45	8.41
UK Gilts		8.000	12/00	102-23	+3/32	7.27	7.39	7.26
		7.500	12/06	96-13	+3/32	8.01	8.13	8.05
		9.000	10/08	108-21	+2/32	8.13	8.24	8.15
US Treasury *		6.875	05/06	99-14	−2/32	6.95	6.93	6.34
		6.000	02/26	86-14	−3/32	7.10	7.08	6.84
ECU (French Govt)		7.500	04/05	103.0300	−0.070	7.02	7.12	6.90

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	-	Two year	6.31
Broker loan rate	7	Two month	-	Three year	6.50
Fed funds	5¼	Three month	5.27	Five year	6.72
Fed funds at intervention	-	Six month	5.47	10-year	6.95
		One year	5.84	30-year	7.10

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	[illegible]	120.98	−0.12	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ LONG TERM FRENCH BOND OPTIONS (MATIF) [illegible]

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100% [illegible]

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
9500	0.53	0.78	0.56	0.82	0.48	0.73	1.43	1.70
9550	0.29	0.53	0.39	0.62	0.74	0.98	1.77	2.00
9600	0.14	0.34	0.27	0.48	1.09	1.29	2.15	2.36

Est. vol. total, Calls 9281 Puts 9900. Previous day's open int., Calls 116816 Puts 137686

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100% [illegible]

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100% [illegible]

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF) [illegible]

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100% [illegible]

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100% [illegible]

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000 [illegible]

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100% [illegible]

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100% [illegible]

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Jun 24	Day's change %	Fri Jun 21	Accrued interest	xd adj. ytd		Low coupon yield Jun 24	Jun 21	Yr. ago	Medium coupon yield Jun 24	Jun 21	Yr. ago	High coupon yield Jun 24	Jun 21	Yr. ago
1 Up to 5 years (22)	122.22	0.09	122.11	2.78	4.28	5 yrs	7.39	7.42	8.10	7.44	7.48	8.11	7.52	7.55	8.20
2 5-15 years (19)	145.57	0.18	145.30	2.19	5.64	15 yrs	8.21	8.24	8.43	8.22	8.24	8.45	8.29	8.33	8.56
3 Over 15 years (9)	160.14	0.20	159.82	3.02	5.43	20 yrs	8.29	8.30	8.43	8.29	8.32	8.46	8.34	8.36	8.56
4 Irredeemables (6)	181.95	0.82	180.53	2.19	6.12	Irred.†	8.32	8.36	8.45						
5 All stocks (56)	141.39	0.16	141.17	2.63	5.13										

Index-linked							Inflation 5% Jun 24	Jun 21	Yr. ago	Inflation 10% Jun 24	Jun 21	Yr. ago
6 Up to 5 years (1)	197.62	0.02	197.57	1.44	4.43	Up to 5 yrs	2.72	2.72	3.42	1.17	1.17	1.77
7 Over 5 years (11)	186.58	−0.05	186.67	1.66	1.81	Over 5 yrs	3.83	3.82	3.71	3.81	3.81	3.32
8 All stocks (12)	186.70	−0.05	186.79	1.65	1.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jun 24	Jun 21	Jun 20	Jun 19	Jun 18	Yr ago	High*	Low*
Govt. Secs. (UK)	92.49	92.32	92.00	92.03	91.92	91.75	96.34	91.59
Fixed Interest	111.81	111.49	111.42	111.39	111.38	111.43	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Jun 21	Jun 20	Jun 19	Jun 18	Jun 17
Gilt Edged bargains	69.5	75.9	77.0	102.0	56.2
5-day average	75.9	77.5	77.5	77.7	74.3

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on June 24

U.S. DOLLAR STRAIGHTS [illegible]

SWISS FRANC STRAIGHTS [illegible]

YEN STRAIGHTS [illegible]

OTHER STRAIGHTS [illegible]

DEUTSCHE MARK STRAIGHTS [illegible]

FLOATING RATE NOTES [illegible]

CONVERTIBLE BONDS [illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: [illegible] CONVERTIBLE BONDS: [illegible]

UK GILTS PRICES

Shorts (Lives up to Five Years) [illegible]

Five to Fifteen Years [illegible]

Over Fifteen Years [illegible]

Undated [illegible]

Index-Linked [illegible]

Other Fixed Interest [illegible]

[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Market focus shifts towards G7 summit in Lyon

By Philip Gawith

It is a measure of the torpor which hangs over the foreign exchange markets that talk yesterday should already have turned to the G7 summit in Lyon later this week.

There was little by way of news or data releases for the markets to chew on, leaving prices to trade in a very narrow range.

The dollar finished in London at DM1.5315 and Y109.105 from DM1.5289 and Y108.990. Comments from Mr Robert Rubin, the US treasury secretary, that the US would not be calling for a stronger dollar in Lyons served as an early dampener, but were later counteracted by comments from Mr Larry Summers, his deputy.

The Italian lira was initially a little softer after the government failed to live-up to pre-weekend hype that it might apply to re-enter the European exchange rate mechanism. It later rallied to finish at L1,006 off an intra-day low of L1,009.9.

After starting the day weaker, sterling rallied to finish with the trade weighted index unchanged at 85.9. It closed at DM2.3580 and $1.5398 from DM2.3551 and $1.5403.

■ The one piece of data which was being discussed was German cost of living figures for June. Mr Tony Norfield, UK treasury economist at ABN AMRO in London, said releases from some of the Lander suggested overall inflation was likely to be around 1.3 per cent in June, compared to 1.5 per cent in May. This would keep the way open for a cut in the repo rate, which should underpin the dollar.

Analysts have also taken comfort from the dollar's recent resilience. Adverse factors included the outcome of the Russian election, the Japanese growth shock, comments from Bundesbank officials suggesting the revaluation of the dollar was over, and the pace of M3 growth.

Mr Klaus Kusber, an analyst in the Dresdner Bank group said the fact that a sell-off had failed to materialise, "and buying interest resurged amid falling prices speaks in favour of the underlying strength of the US dollar currently."

The technical outlook is not wholly encouraging. Mr Brian Marber, a London based technical analyst, said he had come close to advocating short dollar positions last week for the first time this year. He said the daily close chart showed a potential head and shoulders top, subject to confirmation on a DM1.4999 close. If it were to be confirmed, he said it would be "far larger than the previous tops since April 1995's low", leaving the dollar vulnerable to a possible retracement down to the 1995/6 uptrend at DM1.4230.

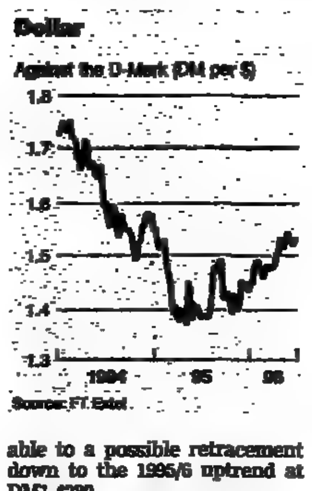
Against this scenario, said Mr Marber was that if it did take place, it would mean that DM1.5476 on May 28 had been *the* high, although only 14.4 per cent above April 1995's low. "No long-term dollar advance has been smaller than 27 per cent, even though several have been shorter than the current one's 14 months." Mr Marber is still instructing clients to stay long the dollar.

■ With current exchange rates at levels which engender little dispute, there does not seem to be room for the G7 to add much of use. This is the line taken by Mr Robin Marshall, chief economist at Chase in London: "G7 gatherings are not what they were and their impact on global markets is easily exaggerated".

Some observers disparage the G7 gatherings. Mr Robin Aspinall, strategist at National Australia Bank in London predicted "little more than a self-congratulatory sentence about currency movements...Such smugness is appropriate - provided you do not look too far back into the dollar's performance, or look at its performance against any major currency other than the yen, or count the cost of BOJ support."

His strictures seem harsh. The rally in the dollar last year can be traced almost directly to the statement of support from the Washington meeting of G7 finance ministers and central bankers in April.

Mr Carl Weinberg, chief economist at High Frequency Economics in New York, is one who thinks the summit may move markets. "We believe that if the summit communique does not explicitly show agreement that the "appreciation of the dollar" has gone far enough, the greenback will immediately rise after the summit to the Y115 level that senior Team Clinton people have deemed "acceptable" in comments over the last few weeks."



■ Pound in New York

Jun 24	—Latest—	— Prev. close —
£ spot	1.5400	1.5355
1 mth	1.5396	1.5352
3 mth	[illegible]	1.5346
1 yr	1.5418	1.5372

■ OTHER CURRENCIES

Jun 24	£	$
Czech Rp	42.4558 - 42.5191	27.5830 - 27.5080
Hungary	231.340 - 231.452	150.260 - 150.310
Iran	4620.30 - 4518.80	3000.00 - 3000.00
Kuwait	0.4616 - 0.4620	0.2998 - 0.3000
Poland	4.1857 - 4.1946	2.7157 - 2.7237
Russia	7807.31 - 7814.47	5071.00 - 5074.00
U.A.E.	5.6542 - 5.6568	3.6725 - 3.5730

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

Shimizu International Finance (USA), Inc
Yen 5,000,000,000
Tranche A Floating Rate Notes Due 1996
In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 24th September, 1996 has been fixed at 0.97891% per annum. The interest payable on 24th September, 1996 against presentation of Coupon No. 16.
Union Bank of Switzerland
London Branch Agent Bank
20th June, 1996

ALCOHOLIC BEVERAGES

[illegible]

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الاصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
Gartmore Brit Inc	♣	88	—	91	75	11.3	93.9	11.8
Zero Div Pref		135	+½	137	117½	–	–	–
Units		222	+1	228	198	4.1	235.7	5.8
Gartmore Scot Inc	♣	54	—	58	52	24.8	–	–
Cap		109	—	115	94	–	282.8	61.6
Zero Div Pf		200½	—	200½	172	–	–	–
Units		2885	—	2885	2615	4.6	–	–
Gartmore Shared Eq	♣□	78xd	—	101	76	13.9	82.0	4.9
Senior Zero Pf		124	—	124½	104½	–	–	–
Junior Zero Pf		120½	—	121	104	–	–	–
Gen Cons Inc	□	105	—	110	100	11.4	–	–
Cap		177	+1	183	151	–	250.9	31.9
Stepped Pf		180xd	—	181	175½	2.3	–	–
Govett Fxd Extra Inc		85xd	—	95	84	11.2	98.8	14.0
Warrants		8	—	13	7	–	–	–
Pfd		104½	—	108½	101	–	–	–
HTR Inc & Grth Spl Inc		111	—	128	95	8.8	112.2	1.1
Zero Div Pf		124	-½	125	103½	–	–	–
Henderson American Inc		104	—	105	98	9.5	–	–
Capital	♣	40	—	48½	29½	–	55.5	27.9
Warrants		13½	—	13½	8	–	–	–
Henderson Eurotrust	♣	125	—	133	98	2.8	155.0	19.4
Units		170	—	177	123	2.1	189.2	10.1
Zero Pf		45	-¼	45½	36½	–	–	–
Hong Kong		50½	—	58	37	5.0	57.6	12.3
Zero Div Pref		42½	-¼	42½	38½	–	–	–
I&S Optimum Inc	♣	95	—	103	88	10.9	104.9	8.5
Zero Div Pref		249½	—	249½	224	–	–	–
INVESCO Blue Chip	♣	56xd	—	65	56	14.8	62.3	10.1
Zero Pf		190½	-½	191	168	–	–	–
INVESCO Recovery	♣	93xd	—	103	83	10.8	115.4	19.4
Pfd Growth		178	—	178	153	–	–	–
Johnson Fry Euro	♣	78	—	80	68	7.1	106.7	26.9
Zero Pf		131½	—	132½	108½	–	–	–
Johnson Fry Second	♣	80xd	—	88	68	10.8	87.3	8.4
Zero Div Pf		122	-½	122½	99½	–	–	–
Johnson Fry Util	♣	87xd	—	106	79	10.2	95.3	8.7
Zero Pf		131	—	132	109	–	–	–
Jos Hldgs Capital	♣	113	—	123	102	–	272.0	58.5
Income		80xd	—	88	68	10.9	–	–
Zero Div Pref		154	—	155	124½	–	–	–
Jove Income		58	—	64	55	13.8	–	–
[illegible]								

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER FINANCIAL - Cont.

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- § Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment.

F Yield based on prospectus or other official estimates for 1996-97. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1995. K Yield based on prospectus or other official estimates for 1996. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a

FID (Foreign Income Dividend). R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

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For readers phoning from outside UK, please dial +44 in place of the first 0.

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● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

AIB Fund Management Ltd

LGT Asset Management Ltd

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

Dragon Korea Fund Plc

ISLE OF MAN (SIB RECOGNISED)

Mercury Fund Managers Intl Ltd

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Lloyds Private Banking (CI) Ltd

Lombard Odier (Jersey) Ltd

LUXEMBOURG (SIB RECOGNISED)

Fidelity Funds - Contd.

Schroder International Selection Fd - Contd.

LUXEMBOURG (REGULATED)(**)

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[illegible]

OTHER OFFSHORE FUNDS

[illegible]

OFFSHORE INSURANCES

[illegible]

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales.

(**) Funds not SIB recognised. The regulatory authorities for these funds are:

Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.

Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(♥) - 0001 to 1100 hours
(♦) - 1101 to 1400 hours
(♠) - 1401 to 1700 hours
(♣) - 1701 to midnight
E - Exit charge on sale of units.
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
b - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
d - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x - Offered price includes all expenses except agent's commission.
y - Previous day's price.
¶ - Guernsey gross.
◆ - Yield before Jersey tax.
† - Ex-subdivision. xd - Ex-dividend.
‡ - Only available to charitable bodies.
◊ - Yield column shows annualised rates of NAV increase.

The fund prices on these pages are also available on the Internet at www.FT.com

LONDON STOCK EXCHANGE

MARKET REPORT

Worries over earnings downgrades hit shares

By Steve Thompson, UK Stock Market Editor

Traders in London's equity market were fighting over the few scraps of institutional business being transacted, at the start of what promises to be a quiet week.

Apart from the dearth of customer business, as opposed to trading between marketmakers, there was a growing feeling that the close of the second quarter could bring a series of substantial profits downgrades in the manufacturing sectors.

Also worrying for market observers was London's latest refusal to follow the lead of Wall Street. Up 45 points on Friday, the Dow Jones Industrial Average made further rapid progress at the outset yesterday, climbing some 30 points in response to a comforting performance by US bonds. Gilts did their best to support the UK equity market, holding up well ahead of tomorrow's £3bn auction.

As was the case last week, there was no shortage of sporting distractions: for the next two weeks, investors' interest, already minimal after Royal Ascot and the Test Match, will be further diluted by tennis at Wimbledon.

"Institutional dealers prefer the sports screens to the trading screens at the moment, and there is precious little we can do about it," noted the head of marketmaking at one UK securities house.

Important economic news items are thin on the ground and while there is a long list of company news items, only one FT-SE 100 index constituent, Asda, the food retailing group, is expected to report.

At the close of one of the quietest sessions for many weeks, the Footsie had given ground for the fifth consecutive trading day, ending 11.5 off at 3,710.8, while the FT-SE Mid 250, representing the market's second-line stocks, fell for the sixth out of the last seven days. That index settled 7.4 down at 4,433.3.

Dealers noted that the market had been unhappy with downgrades of ICI and BTR last week, and adopted the view that there were more cuts in earnings forecasts to come in the next few weeks.

"Analysts will be talking to managements and the feeling is that there will be a lot more bad news on profits than good news," said one senior salesman.

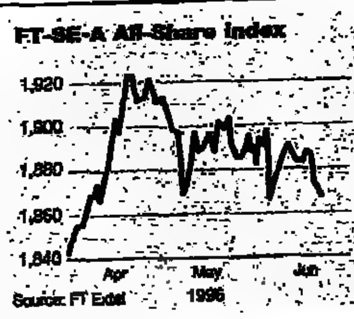
The market kicked off the session in reasonable fashion, with the Footsie opening some 7 points higher, as marketmakers lifted their opening levels to accommodate Wall Street's rise on Friday night. But with no evidence of any substantial buying interest from the big funds, prices began to falter, driving the index into the red within 15 minutes of the opening.

The Footsie future gave no assistance to the cash market, trading at a discount all day and undermining confidence among dealers.

The prospect of a series of lucrative Ministry of Defence contracts drove British Aerospace to the top of the Footsie performance table. But shares in British Steel were hampered by rumours that the company may be considering the purchase of Hoogovens' steel business, valued in excess of £750m by some industry observers.

Turnover at 6pm had reached 599.4m shares. Retail business on Friday was valued at £1.71bn.

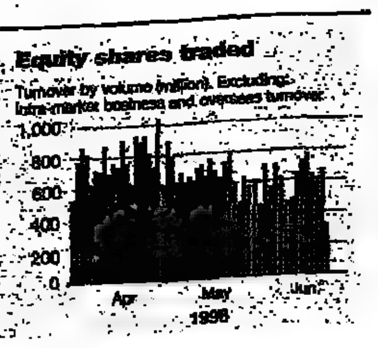
FT-SE-A All-Share index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover.



Indices and ratios

FT-SE 100	3710.8	–11.5
FT-SE Mid 250	4433.3	–7.4
FT-SE-A 350	1878.4	–5.2
FT-SE-A All-Share	1865.79	–5.01
FT-SE-A All-Share yield	3.84	3.86
FT Ordinary index	2735.9	–7.1
FT-SE-A Non Fins p/e	16.91	16.81
FT-SE100 Fut Jul	3704.0	–21.5
10 yr Gilt yield	8.01	[illegible]
Long gilt/equity yld ratio:	2.17	2.17

Best performing sectors

1 Food Producers .... +0.3
2 Distributors .... +0.3
3 Engineering: Vehicles .... +0.3
4 Building & Const .... +0.2
5 Oil Exploration .... +0.2

Worst performing sectors

1 Transport .... –0.7
2 Building Mats .... –0.6
3 Textiles & Apparel .... –0.6
4 Electricity .... –0.6
5 Gas Distribution .... –0.6

Tough start for Sun Life

Volume in London was dominated by the first day of trading in Sun Life & Provincial Holdings, the UK and Ireland arm of UAP, the French insurer.

Some 41m "when issued" shares changed hands as Robert Fleming Securities, the global co-ordinator of the offer, struggled to maintain the share price by buying back in the market through the so-called "green shoe" share stabilisation process.

Analysts said a number of institutions had shied away from the offer, feeling that the strike price of 235p a share was too high.

Consequently, institutions which had put in bids for stock through the book-building process, and assumed that their bids would be scaled back, were left with more shares than they bargained for. They offloaded the surplus in the market and Fleming was said to have been bidding for stock all day. Some dealers said the broker had used up most of its green shoe allocation, which has another 29 days to run.

However, there was praise for both Fleming and UAP for getting the offer away under difficult circumstances. The shares ended the day at 232p.

Mirror dulled

A focus on the return of a price war among the tabloids hit Mirror Group, which saw its share price fall by more than 3 per cent at one stage.

On Saturday, News International launched an offer to buy the News of the World for 10p a copy with a voucher in the Sun. This is expected to hit sales of the competing Sunday Mirror and, consequently, profits at the parent.

Panmure Gordon removed Mirror Group from the buy list and reduced its forecasts. It has moved its current year figure down by £6.5m to £90m and next year's prediction by £7.5m to £115m. The shares dipped 4 to 209p.

Advertising group WPP received a boost from a very positive annual meeting statement. Mr Burt Manning, the experienced head of the J. Walter Thompson subsidiary, was reported to have said business was better than he had ever seen it. WPP rose 7 before settling 2 ahead at 211p.

Oils supported

Lasmo and Enterprise Oil, the UK's principal oil exploration and production companies, were supported by an enthusiastic broker note.

Mr Alan Marshall, oil analyst at Flemings Research, has turned buyer of Lasmo following recent underperformance by the shares and has reiterated his buy stance on Enterprise. The companies are drilling, respectively in Algeria and Italy. Mr Marshall argued that: "Both regions clearly provide enormous upside potential in terms of reserves and longer term production trends."

Lasmo shares finished steady at 175½p and Enterprise Oil firmed a penny to end at 463p.

British Borneo rose 20 to 571p on the back of an announcement that a subsidiary of the exploration and production company has leased a deep-water drilling rig. The announcement carried the implication that British Borneo is making big strides at one of its exploration fields, probably in the Gulf of Mexico.

Asda edged up to 118½p on trading of 8.4m shares ahead of Thursday's figures. Analysts said that the market would not be surprised if results came in above the most optimistic of forecasts. "Nobody wants to be short," said one analyst.

Carpetright declined 6 to 571p, with an agency cross of 4.8m shares following a placing of Employee Share Option Plan (ESOP) shares by SBC Warburg at less than the prevailing market price.

There was some profit-taking in Next, which shed 7 to 585p in spite of its inclusion in the FT-SE 100 index and an SBC Warburg upgraded forecast.

House of Fraser firmed to 181p after the announcement of three new board members, with Mr Tony Hancock, the current operations director, leaving the group.

Liberty jumped 20 to 415p, with recent press reports fuelling speculation about the future of the family's stake in the business.

Growing concern over the dividend of BTR saw the shares shed a further 2 in early trading yesterday. However, the company held a lunch for analysts which appeared to staunch some of the blood-letting. Following a 20 per cent slide since the middle of May, the shares finished steady yesterday at 255p.

Zeneca was lifted 3 to 1385p as the US Food and Drug Administration gave approval for the company's new antibiotic, Merrem. ICI fell 7 to 808p on concern about overcapacity in its important polyester and titanium dioxide markets.

Speciality chemicals group BTP rose 16 to 294p following well received full-year figures.

British Biotech had some of the wind taken out of its sails as the cautious sentiment in the market led to a certain amount of profit-taking. The shares lost 108 to 2400p.

Relief that Scottish Power is out of the battle zone and has practically achieved its target of acquiring Southern Water sent the former's shares 4 higher to 315p.

Southern Water, which said it was advising shareholders to accept the new Scottish offer, eased 6 to 1001p. Southern Electric, the apparent loser in the bid battle, fell 9 to 706p.

Wessex Water, viewed by many utilities analysts as the next takeover target in the water stocks, moved forward 13 to 367p.

British Aerospace improved 14 to 990p in anticipation of replacement orders for Nimrod aircraft and reports that the UK government plans to boost spending on defence by more than £12bn, favouring British companies in the process. Several brokers, including ABN Amro Hoare Govett and SBC Warburg, reiterated their enthusiasm for the stock.

British Airways retreated 6 to 548p on a slightly belated reaction to a statement on Friday by the director general of Fair Trading. The OFT said the airline's plans to link up on marketing with American Airlines merited an investigation. And comment in the weekend press reinforced uncertainty among investors.

Orange, the mobile telephone group, was heavily dealt on its first day of trading in the Footsie. The shares fell 6 to 237½p on volume of 10m.

RTZ, one of the world's largest mining companies, slipped 5 to 970p as the price of copper dropped to a 2½-year low.

Perpetual, the fund manager, receded 48 to 2415p on the back of industry figures which showed that net sales of unit trusts in May had halved from their April level.

Birse, the builder, moved ahead 4½ to 27p on trading volume of 2.1m shares. Speculative buying was said to be behind the rise.

Sherwood Group, the clothing company, fell 9 to 83p in the wake of a big agency cross carried out at 83p a share.

Sinclair Montrose Healthcare, the staff agency, made a strong debut on AIM. The shares, which were placed at 140p, began trading at 164p and closed at 167p.

MARKET REPORTERS:
Peter John, Lisa Wood, Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Jun 24	Jun 21	Jun 20	Jun 19	Jun 18	Yr ago	*High	*Low
Ordinary Share	2735.9	2743.0	2748.4	2768.9	2776.8	2490.5	2885.2	2696.7
Ord. div. yield	4.09	4.07	4.07	4.04	4.03	4.27	4.09	3.78
P/E ratio net	16.14	16.19	16.22	16.33	16.37	15.59	17.95	15.96
P/E ratio nil	16.05	16.10	16.13	16.24	16.29	15.35	17.09	15.78

Ordinary Share index since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2751.7	2745.1	2740.1	2742.4	2746.5	2746.3	2743.6	2740.2	2737.0	2751.7	2735.8

	Jun 24	Jun 21	Jun 20	Jun 19	Jun 18	Yr ago
SEAQ bargains	28,173	29,193	30,159	29,770	27,650	21,378
Equity turnover (£m)†	–	1714.7	1760.7	2167.9	1702.8	1097.2
Equity bargains†	–	34,882	35,193	35,106	30,632	28,412
Shares traded (ml)†	–	615.3	620.5	686.2	622.8	423.6

†Excluding intra-market business and overseas turnover.

	Jun 24	Jun 21	Jun 20	Jun 19	Jun 18	Yr ago	*High	*Low
FT-SE AIM	1097.80	1102.40	1102.40	1106.70	1110.40	–	1140.40	955.70

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	640	Total Highs	80	Total contracts	27,359
Total Falls	561	Total Lows	29	Calls	12,235
Same	1,518			Puts	15,124

June 24 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3724.0	3704.0	-14.0	3729.0	3700.0	7218	56256
Dec	3742.0	3726.0	-15.0	3742.0	3742.0	50	1010

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		4450.0	-10.0			0	3800

FT-SE 100 INDEX OPTION (LIFFE) (*3711) £10 per full index point

	3550 C	3550 P	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P
Jul	161½	7	117	13	76	23½	40	41½	22½	68½	9½	106	2½	[illegible]	1	201
Aug	171	21	132	31½	96½	46½	66	66	44½	93½	25	125½	12½	163½	6½	207½
Sep	187½	37½	158	49	118½	66½	89	86½	66½	112½	45½	142½	29½	176	18½	216
Oct	197½	42½	162½	57	132	75½	103	95½	80½	129	60	152½	46	188	31	225
Dec†			207	57			146½	126			99½	178			60	243

Calls 3,237 Puts 7,085

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3525 C	3525 P	3575 C	3575 P	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P
Jul	185	6	137½	9½	96	17½	60½	32	33	54	16	85½	6	125½	1½	171½
Aug	190	16	149	24½	112	37	79½	54	53	77	32½	106½	18½	141½	9	182
Sep	227	30½	189	41½	134	58	102	73½	74½	95½	52½	122½	35½	154½	20	191½
Dec	261½	65½			194	98			138½	137½			91½	187½		
Mar†	308	97½			242	132			185	171			136½	217½		

Calls 1,972 Puts 2,693 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	4.02	55	48	Biocompatibles W	51		-	-	-	-
90	F.P.	10.1	108	98	†Carisbrooke	100		-	-	-	-
-	F.P.	107.1	220	208	City Technology	220		-	-	-	-
-	F.P.	17,478	137⅝	135⅛	Elect Data Sys	135⅝		-	-	-	-
115	F.P.	48.9	156	130	European Telecom	151		-	-	-	-
-	F.P.	43.9	136	118	†Fibernet Group	118	-6	-	-	-	-
100	F.P.	94.5	97	91½	Fidelity Asian V	92		-	-	-	-
-	F.P.	7.40	37	32	Fidelity Asn Wts	36		-	-	-	-
60	F.P.	3.15	65	63	†Fieldens	63		-	-	-	-
-	F.P.	24.8	20	19	†Gold Mn Sardinia	19		-	-	-	-
-	F.P.	5.36	11	10	†Gold Sard Wrts	10		-	-	-	-
100	F.P.	7.74	116	112	†Hydro-Dynamic P	115		-	-	-	-
-	F.P.	39.6	297	260	†ISS	280	-45	20.6	-	0.5	-
-	F.P.	5.05	280	245	†ISS Warrants	245	-45	-	-	-	-
-	F.P.	14.4	116	108	†Independent Engy	110		-	-	-	-
-	F.P.	33.9	155	123	Lands Improvement	125		-	-	-	-
-	F.P.	2.81	126	110	†Matrix Hlthcare	110		-	-	-	-
-	F.P.	101.3	500	456	PPL Therapeutics	460		-	-	-	-
-	F.P.	24.5	99	98	Renaissance US G	98		-	-	-	-
70	F.P.	16.5	75	71	SEA Multimedia	73		-	-	-	-
140	F.P.	20.3	167	164	†Sinclair M'trose	167		-	-	-	-
100	F.P.	101.0	103½	100	Templeton Emg O	101	+1	-	-	-	-
118	F.P.	39.4	138	105	†Theo Fennell	120	-1	-	-	-	-
174	F.P.	19.7	176	174	Treats Group	175		-	-	-	-
84	F.P.	3.84	95	91	†Wilshaw	93		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Jun 21	% chg on day	Jun 20	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	[illegible]	–1.7	[illegible]	2003.65	1.80	–	2620.72	1722.56
Regional Indices								
Africa (13)	2742.91	–0.8	2765.99	2738.35	2.64	37.42	3593.88	2272.74
Australasia (6)	2491.89	+0.8	2471.25	2348.20	2.64	[illegible]	2927.34	2142.79
North America (12)	1803.78	–2.5	1850.51	1745.63	0.75	64.15	2188.39	1458.94

FT - SE Actuaries Share Indices — The UK Series

	Jun 24	Day's chge%	Jun 21	Jun 20	Jun 19	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3710.8	–0.3	3722.3	3727.5	[illegible]	3309.2	4.09	2.13	14.35	90.16	1519.34
FT-SE Mid 250	4433.3	–0.2	4440.7	4449.6	4465.1	3625.5	3.39	1.73	21.42	105.01	1796.01
FT-SE Mid 250 ex Inv Trusts	4476.1	–0.2	4485.1	4493.2	4499.3	3634.4	3.45	1.75	[illegible]	[illegible]	1806.41
FT-SE-A 350	1878.4	–0.3	1883.6	1886.6	1897.1	1643.8	3.92	2.05	15.50	45.49	1672.76
FT-SE-A 350 Higher Yield	1798.1	–0.4	1805.9	1806.9	[illegible]	1649.1	[illegible]	1.92	12.37	59.90	1255.91
FT-SE-A 350 Lower Yield	1965.9	–0.1	1968.5	1971.4	1980.6	1639.7	2.71	2.29	20.13	37.50	1303.92
FT-SE SmallCap	2226.69	–0.2	2232.44	2235.83	2236.20	1845.45	2.91	1.76	24.14	35.44	1831.64
FT-SE SmallCap ex Inv Trusts	2230.69	–0.2	2234.51	2237.06	2237.84	1824.20	3.06	1.87	21.65	37.56	1845.32
FT-SE-A ALL-SHARE	1865.79	–0.3	1870.80	1873.67	1883.36	1625.33	3.94	2.04	15.96	43.91	1596.37

FT-SE Actuaries All-Share

	Jun 24	Day's chge%	Jun 21	Jun 20	Jun 19	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3470.65	–0.1	3473.80	3470.31	3479.94	2836.33	3.86	1.93	17.69	79.25	1485.35
12 Extractive Industries(5)	4337.31	–0.4	4356.22	4401.48	4397.93	3805.96	3.70	2.52	13.43	109.19	1276.53
15 Oil, Integrated(3)	3509.40	–0.1	3511.28	3499.16	3511.33	2830.44	4.06	1.72	17.78	81.84	1550.78
16 Oil Exploration & Prod(16)	2497.86	+0.2	2492.96	2485.81	2502.87	2026.93	2.10	1.86	37.47	34.94	1804.50
20 GEN INDUSTRIALS(275)	2046.94	–0.3	2052.58	2059.38	2068.31	1913.62	4.19	1.90	15.67	45.01	1123.01
21 Building & Construction(34)	1210.07	+0.2	1207.79	1212.03	1211.48	953.01	3.40	1.66	21.87	20.79	1014.87
22 Building Matls & Merchs(28)	1896.23	–0.6	1907.80	1913.20	1924.41	1743.45	4.08	1.77	17.53	42.81	962.27
23 Chemicals(25)	2448.57	–0.2	2454.62	2458.50	2485.20	2382.92	4.07	1.96	15.69	57.53	1166.44
24 Diversified Industrials(19)	1589.97	–0.3	1595.32	1603.74	1611.93	1786.42	6.56	1.70	11.25	55.36	887.08
25 Electronic & Elect Equip(37)	2358.27	–0.2	2363.10	2371.43	2398.96	2000.86	3.14	1.67	23.75	17.76	1218.93
26 Engineering(71)	2461.09	–0.3	2469.52	2475.32	2468.21	1952.61	3.24	2.49	15.49	47.14	1502.06
27 Engineering, Vehicles(13)	3039.00	+0.3	3030.32	3028.51	3025.44	2305.92	3.51	1.96	18.21	53.22	1578.01
28 Paper, Pckg & Printing(26)	2606.54	......	2607.40	2622.26	2642.42	3017.89	3.93	1.95	16.07	55.87	1091.47
29 Textiles & Apparel(19)	1387.37	–0.6	1395.69	1406.95	1408.30	1611.72	5.10	1.53	16.00	41.87	858.25
30 CONSUMER GOODS(91)	[illegible]	–0.2	3544.74	[illegible]	[illegible]	3198.14	3.96	1.89	16.71	81.49	1313.36
32 Alcoholic Beverages(9)	2679.35	–0.3	2687.65	2719.00	2734.01	2705.83	4.67	1.62	16.56	71.90	972.59
33 Food Producers(23)	2521.70	+0.4	2512.20	2511.46	2502.38	2491.79	4.12	1.97	15.41	56.16	1148.22
34 Household Goods(15)	2642.27	+0.1	2640.19	2644.75	2657.26	2629.91	3.79	2.15	15.45	58.43	1013.93
36 Health Care(20)	2134.61	......	2134.28	2137.45	2139.15	1807.35	2.58	1.84	26.59	33.80	1309.28
37 Pharmaceuticals(13)	5092.79	–0.5	5119.09	5121.54	5142.64	4168.27	3.32	1.87	20.15	91.16	1733.17
38 Tobacco(1)	4256.62	–0.4	4273.56	4324.38	4362.50	4071.53	5.97	2.12	9.87	156.18	1069.23
40 SERVICES(258)	2539.89	–0.3	2546.81	2551.00	2566.10	2021.88	2.81	2.01	22.15	51.01	1329.17
41 Distributors(32)	2926.74	+0.3	2919.49	2933.22	2944.97	2571.30	2.92	1.76	24.31	48.29	1084.60
42 Leisure & Hotels(34)	3294.18	–0.1	3296.88	3294.06	3290.74	2321.18	2.69	1.89	24.62	143.74	1775.08
43 Media(46)	4184.52	–0.2	4191.82	4189.93	4216.84	3080.03	2.17	1.88	30.58	51.77	1517.42
44 Retailers, Food(15)	2034.98	–0.2	2039.34	2045.61	2068.85	1983.80	3.73	2.31	14.52	48.47	1305.81
45 Retailers, General(44)	2103.25	–0.4	2112.08	2114.52	2129.94	1641.86	2.97	2.18	19.48	45.45	1212.40
47 Breweries, Pubs & Rest.(24)	3197.33	–0.3	3208.36	3221.80	3256.41	2435.24	3.19	2.14	18.36	50.78	1541.65
48 Support Services(49)	2441.10	–0.1	2443.86	2461.95	2469.92	1828.74	1.89	2.37	27.91	27.48	1554.95
49 Transport(22)	2355.67	–0.7	2372.81	2373.69	2384.64	2215.32	3.45	1.47	24.68	54.52	989.74
60 UTILITIES(33)	2334.88	–0.6	2346.69	2350.67	2365.58	2347.05	5.46	1.98	11.59	77.13	1003.09
62 Electricity(11)	2568.82	–0.6	2584.00	2570.12	2553.68	2191.19	6.34	2.35	8.39	187.96	1260.84
64 Gas Distribution(2)	1223.49	–0.6	1230.25	1236.85	1252.65	1948.04	9.79	1.36	9.40	66.67	641.73
66 Telecommunications(8)	1985.05	–0.5	1995.37	2005.87	2037.63	2083.14	4.05	1.79	17.21	12.56	904.06
68 Water(12)	2150.95	–0.3	2157.44	2157.03	2142.49	1862.20	6.15	2.34	8.70	67.20	1201.11
69 NON-FINANCIALS(669)	1990.45	–0.3	1995.88	2000.01	2009.52	1750.23	3.83	1.93	16.91	46.11	1518.58
70 FINANCIALS(105)	2846.78	–0.3	2855.47	2851.42	2875.06	2367.60	4.25	2.62	11.23	78.48	1235.32
71 Banks, Retail(8)	3909.23	–0.3	3920.92	3906.68	3954.49	3176.78	3.98	2.89	10.85	110.04	1267.38
72 Banks, Merchant(6)	3669.42	......	3669.31	3611.26	3603.27	3263.42	2.69	2.37	19.56	55.36	1168.47
73 Insurance(23)	1448.50	–0.4	1453.73	1458.89	1475.47	1276.80	5.83	3.12	6.87	48.01	1098.16
74 Life Assurance(6)	3326.81	–0.4	3340.75	3349.91	3358.32	2641.53	4.49	2.24	12.43	100.72	1394.62
77 Other Financial(21)	2663.97	–0.2	2668.70	2667.97	2686.06	2025.30	3.91	1.73	18.48	58.60	1527.37
79 Property(41)	1521.30	–0.3	1526.26	1528.11	1527.73	1454.64	4.18	1.29	23.09	35.24	844.32
80 INVESTMENT TRUSTS(126)	3161.13	+0.1	3157.51	3171.94	3172.19	2768.02	2.22	1.09	51.83	39.96	1107.85
89 FT-SE-A ALL-SHARE(900)	1865.79	–0.3	1870.80	1873.67	1883.36	1625.33	3.94	2.04	15.96	43.91	1596.37
FT-SE-A Fledgling	1272.66	.....	1272.32	1274.16	1275.59	1006.86	2.71	2.15	21.47	16.31	1332.84
FT-SE-A Fledgling ex Inv Trusts	1289.01	.....	1288.59	1290.16	1291.95	999.21	2.91	2.32	18.55	17.65	1350.36

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3729.7	3721.6	3715.4	3718.0	3720.5	3720.1	3720.0	3717.0	3711.6	3729.7	3710.8
FT-SE Mid 250	4441.6	4442.9	4439.5	4440.5	4439.8	4440.5	4439.5	4437.1	4433.7	4443.3	4433.3
FT-SE-A 350	1886.6	1883.6	1880.8	1881.9	1882.8	1882.7	1882.5	1881.2	1878.8	1886.6	1878.4

Time of FT-SE 100 Day's high: 8:30 AM Day's low: 4:26 PM. FT-SE 100 1996 High: 3857.1 (19/04/96) Low: 2954.2 (23/01/96).

FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1188.8	1188.8	1189.1	1189.9	1191.9	1191.9	1191.9	1191.9	1191.5	1191.5	1188.1	+3.4
Pharmaceuticls	5054.6	5041.5	5035.8	5039.5	5035.0	5034.7	5033.5	5032.3	5018.0	5022.0	5047.5	–25.5
Water	2139.9	2137.2	2135.9	2137.6	2136.2	2136.5	2136.3	2135.6	2136.2	2136.4	2144.5	–8.1
Banks, Retail	3976.5	3965.9	3962.8	3960.5	3964.4	3964.8	3965.1	3962.0	3959.6	3959.1	3971.0	–11.9

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.

 † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. QUARTERLY REVIEW CHANGES: See paper dated 13 Jun 1996, p45.

TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	8,400	118½	+1
3i†	132	447	
Abbey National†	1,900	538	-3
Albert Fisher	291	47½	
Allied Domecq†	2,400	461	-1
Anglian Water	697	582	+5
Argos†	550	743	-1
Argyll Group†	1,900	342	-6
Arjo Wiggins	1,000	189½	-1½
Assoc. Brit. Foods†	1,700	398	
Assoc. Brit. Ports	444	279	-1
BAA†	867	494xd	+4½
BAT Inds.†	3,800	503	-2
BBA	34	319	+2
BICC	1,400	323	-2
BOC†	845	932	+1
BP†	3,400	558	-1½
BPB Inds.	991	313	-3
BSkyB†	482	405	+1
BT†	5,100	367	-3½
BTR†	5,900	255	-2
Bank of Scotland†	799	242½	
Barclays†	1,300	784	-5
Bass†	887	816	-3
Blue Circle†	624	368	-1
Booker	40	390	
Boots†	2,400	587	-2½
Britannic	74	743	-1
Brit. Aerospace†	649	990	+14
British Airways†	7,800	548	-6
British Biotech	68	2400	-108
British Gas†	4,100	181½	-1
British Land	462	438	-6
British Steel†	8,800	160½xd	-1
Bunzl	2,500	[illegible]	-3
Burmah Castrol†	43	1093	-1
Burton†	1,700	[illegible]	
Cable & Wire†	3,300	429½	+1½
Cadbury Schweppes†	7,500	502	+6½
Caradon	624	227	
Carlton Comms.†	3,300	512	+1
Chubb	378	328	+1
Coats Viyella	399	174	
Comm. Union†	987	577	-3
Compass	638	603½	
Cookson†	4,600	[illegible]	-3
Courtaulds†	157	428	-3
Dalgety	25	375	+1
De La Rue	505	588	
Dixons†	1,800	531	+6½
East Midland Elect.	188	518xd	-2½
Electrocomps	394	383	+1
Eng China Clays	81	280	
Enterprise Oil†	3,300	463	+1
Eurotunnel Units	757	107	+2
FKI	1,800	180xd	-1½
Foreign & Col. I.T.	777	160½	+1¼
Gen. Accident†	1,200	648	
General Elect.†	3,300	368	+1½
Glaxo Wellcome†	7,600	863	-7½
Glynwed	884	329	+1
Granada†	4,500	879	+3
Grand Met.†	5,800	412	-3½
GUS†	804	667	-3
Greenalls	493	580	+4
GRE†	2,500	258	+2
GKN†	194	988	
Guinness†	2,200	449	+½
HSBC (75p shs)†	398	988	-1
Hammerson	289	378	+1
Hanson†	8,400	179½	+¼
Harrisons Crosfield	842	132½	-2½
Hays	899	484	-1
Hillsdown	1,000	182	
Hyder	188	732	+8
IMI	117	384	-1½
ICI†	807	808	-7
Inchcape	236	286	+3
Johnson Matthey	160	620xd	+1
Kingfisher†	1,900	630	-3½
Kwik Save	48	466	
Ladbroke†	774	194	-1
Land Securities†	584	612	-3
Laporte	40	689	-1
Legal & General†	836	672	-2
Lloyds Abbey	380	523	+8
Lloyds TSB†	3,100	315½	+1
LASMO†	1,700	175½	
London Elect	94	634xd	-1½
Lonrho	2,600	182½	+3
Lucas	3,000	227	
MEPC	119	408	
MFI	105	180	
Marks & Spencer†	981	466½	-3
Mercury Asset Man	324	972	-1
Midlands Elect	9	425	
Morrison (Wm.)	4,800	157	-1
NFC	1,100	177xd	-7½
NatWest Bank†	1,400	615	-4½
National Grid†	2,100	173½	-1½
National Power†	1,300	528	-1
Next†	3,900	585	-7
Northern Elect.	92	570	-1
Northern Foods	443	198	
Orange†	10,500	237½	-6
Pearson†	1,200	680	-1
P & O†	1,400	502	-1½
Pilkington†	1,600	187	-4½
PowerGen†	2,700	471	-1
Premier Farnell	1,400	670	+4
Prudential†	3,800	408	-2½
[illegible]	1,200	332	+6½
RMC†	156	1007	-3
RTZ†	1,800	970	-5
Racal	147	300	
Railtrack	6,200	219½	-1
Rank Org.†	754	525	-1
Reckitt & Colman†	605	685	+1
Redland†	2,400	403	+1
Reed Intl.†	570	1101	-7
Rentokil†	3,000	409	-1
Reuters†	1,500	780	-½
Rolls Royce†	2,200	229	+1
Ryl Bk Scotland†	1,400	494	-4½
Royal Insurance†	1,500	401	-½
Sainsbury†	1,200	388	-1
Schroders†	56	1380	
Scottish & New.†	965	665½	-5
Scot. Hydro-Elect.	112	300	
Scottish Power†	8,900	315	+4
Sears	1,500	99	-1
Sedgwick	152	145	+1
Severn Trent†	979	550	-7
Shell Transport†	2,600	932	+1½
Siebe†	1,200	912	-4
Slough Ests	311	222	
Smith (W.H.)	410	490	+1
Smith & Nephew†	1,700	212	-1¼
SmKl Beecham†	2,100	686½	
Smiths Inds.†	651	695	+2
Southern Elect†	976	706	-9
South West Water	165	659	-6
Southern Water	2,300	1001	-6
Standard Chartd.†	535	644	+2
Storehouse	966	320	+1
Sun Alliance†	769	378	-3
T&N	258	160	+1
TI Group†	803	581	+6
Tarmac	1,300	114	-3
Tate & Lyle†	564	453	+1
Taylor Woodrow	223	156	-1
TeleWest Comms	353	165½	
Tesco†	960	302	-½
Thames Water†	316	557	-6
Thorn EMI†	293	1809	-11
Tomkins†	2,200	239	-1½
Unigate	213	412	+1
Unilever†	1,300	1280	+8
United Biscuits	473	259	+1½
Utd. News & Media†	1,100	[illegible]	-3
United Utilities†	1,100	538	-2
Vodafone†	7,500	238	+1½
WPP	3,400	211	+2
Wessex Water	1,500	367	+13
Whitbread†	353	716	-2½
Williams Hldgs.†	762	333	-1
Willis Corroon	259	164	
Wimpey	620	152	+3
Wolseley†	148	465	-3
Yorkshire Elect	168	733	
Yorkshire Water	237	656	-6
Zeneca†	435	1385	+3

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded. Source: FT Extel.

هكذا من الأصل

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 24 / Sch)

BELGIUM/LUXEMBOURG (Jun 24 / Frs.)

CZECH REP (Jun 24 / Koruna)

DENMARK (Jun 24 / Kr)

FINLAND (Jun 24 / Mkk)

FRANCE (Jun 24 / Frs.)

GERMANY (Jun 24 / Dm.)

GREECE (Jun 24 / Drachma)

ITALY (Jun 24 / Lira)

NETHERLANDS (Jun 24 / Fl.)

NORWAY (Jun 24 / Kroner)

POLAND (Jun 24 / Zloty)

		+/-	High	Low	Yld	P/E
Elektrim	21	+.40	21	8	0.9	—
Exbud	30	+2	41.80	16.50	—	—
Mostalexp	11.90	+.40	13.90	6.40	—	—
Wedel	126	+1	146	82	1.8	—
Wielkop	22.50	+.50	27.50	21.80	1.3	—
Zywiec	210	—	225	170	1.0	—

PORTUGAL (Jun 24 / Escudo)

SPAIN (Jun 24 / Pta.)

SWEDEN (Jun 24 / Kronor)

SWITZERLAND (Jun 24 / Frs.)

TURKEY (Jun 24 / Tk Lira)

PACIFIC

JAPAN (Jun 24 / Yen)

HONG KONG (Jun 24 / H.K.$)

INDONESIA (Jun 24 / Rupiah)

MALAYSIA (Jun 24 / MYR)

NEW ZEALAND (Jun 24 / NZ $)

SINGAPORE (Jun 24 / S$)

AUSTRALIA (Jun 24 / Aust.$)

SOUTH KOREA (Jun 24 / Won)

TAIWAN (Jun 24 / TW $)

THAILAND (Jun 24 / Baht)

AFRICA

SOUTH AFRICA (Jun 24 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jun 24 / Can $) 4 pm close

MONTREAL (Jun 21 / Can $) 4 pm close

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

INDICES

US INDICES

■ NATION

■ NEW YORK ACTIVE STOCKS

■ TRADING ACTIVITY

■ S&P 500

■ Nikkei 225

■ OMX

■ SOFFEX

DAX FUTURES

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■ TOKYO – MOST ACTIVE STOCKS: Monday, June 24, 1996

	Stocks Traded	Closing Prices	Change on day
Hokkaido Taku Bk	19.0m	359	+14
Nip Steel	13.4m	378	+4
NKK Corp	11.1m	333	+4
Mitsubishi Hvy	7.0m	955	+14
Sumitomo Mtl Ind	6.5m	340	+4
Isuzu Motors	6.1m	650	+19
Ishi-Har Hvy Ind	5.9m	528	+6
Kawasaki Steel	5.9m	397	+2
Tokyo Motor Co	5.2m	2780	+80
Kobe Steel	5.0m	320	+6

4 pm close June 24

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23¾	19⅛	AAR	0.48	2.4	21	64	20⅛	19⅞	19⅞	-⅛
48⅛	36⅞	AMP	1.00	2.5	19	5087	40⅛	40	40	-⅛
97½	68	AMR			22	2888	92⅛	90⅝	90⅞	-⅞
50½	37⅞	ASA	1.80	4.4	28	900	40½	38⅞	40½	+⅞
44¾	38⅛	AbbtL	0.96	2.2	18	8380	43⅝	43⅛	43¼	
17¼	13¾	Abitibi Pr	0.40	2.8	7	674	14⅝	14⅛	14⅛	
39	27	ABM Ind	0.70	1.8	19	458	38½	38⅛	38⅜	-⅛
18¼	13⅞	Acpinctn			45	94	17⅝	17⅜	17⅜	-⅜
50⅝	37¾	ACE Ltd	0.58	1.2	11	882	49½	48	48	-⅝
9⅞	9⅛	ACM Gvt In	0.80	8.4	6	406	9⅝	9⅝	9⅝	
7⅞	6⅞	ACM GvOpp	0.57	8.3		823	6⅞	6¾	6⅞	+⅛
7¼	6	ACM Gvt Sp	0.66	10.6		449	6¼	6⅛	6¼	+⅛
9⅛	8¼	ACM Gvt Sa	0.90	10.7		120	8½	8⅜	8⅜	-⅛
9½	8½	ACM Man	0.90	10.4		386	8⅝	d8½	8⅝	
30⅝	16½	AcmeClv	0.52	1.7	7	193	30	29⅞	29⅞	
13⅞	5⅞	Acme Elect			50	93	9⅜	9	9	
32⅞	27¼	Acordia	0.80	2.4	19	29	u32⅞	32⅛	32⅞	+⅞
21⅞	12	Acuson			68	401	16⅜	15¼	15¼	-1⅛
19½	18⅜	Adams Expr	1.65	8.7	0	229	19⅛	19	19⅛	+⅛
21¼	13⅞	Advntc	-		6	5792	14½	14⅛	14⅛	+⅛
11⅛	8½	Advest Grp	0.16	1.5	7	34	10⅝	10½	10½	
26⅛	9⅛	Adro Inc	0.10	1.0	58	587	10⅝	10⅜	10½	
50⅞	41⅛	Aegon	1.18	2.7	13	61	44⅞	44½	44⅞	+⅛
6¾	3½	Aerfix			3	218	6	5¾	5¾	-⅛
78¾	66⅞	AetnaL	2.76	3.8	19	5720	72⅝	71⅞	72⅜	-⅛
33	26¼	Aflac	0.40	1.4	12	3402	29⅛	28	28¼	-⅛
20⅞	17⅛	AGL Res	1.08	5.9	15	360	18⅛	17¾	17⅞	-⅛
27⅞	21¼	Ahmnsn	0.88	3.4	7	3487	26½	26	26	-⅛
[illegible]										

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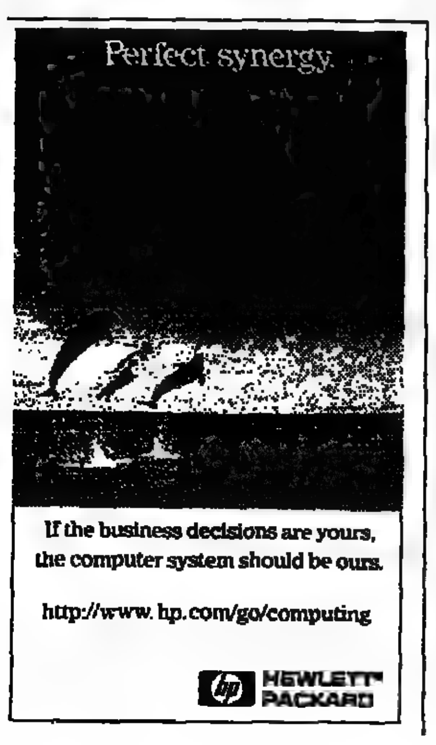


Continued on next page

NYSE PRICES

4 pm close June 24

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close June 24

- R -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Rainbow		14	429	19	18½	19	+⅛
Rallys		0	264	3⅛	2$\frac{15}{16}$	3	+$\frac{1}{16}$
Raymond x	0.10	9	67	17¼	16¾	16¾	
RCSB Fin	0.48	10	812	26	25⅜	25$\frac{7}{16}$	-$\frac{9}{16}$
Read-Rite		52	7634	14⅛	d13	13	-1
Recoton		14	936	18⅛	17⅝	17⅞	+⅛
Repligen	0.05	0	137	1⅛	1$\frac{1}{32}$	1$\frac{1}{32}$	-$\frac{3}{32}$
Repub Ind		144	18014	28⅞	26⅛	28⅞	+3
ResrchMed		24	100	23	22½	22¾	
Resound		30	536	12¼	12⅛	12¼	-⅛
Reuters	0.95	29	1397	70½	69¾	69¾	-½
RoadwExpr	0.20	31	619	14⅞	14⅜	14⅝	
RbNgrd	0.12	15	14	5⅝	5⅝	5⅝	-⅛
Roosevelt	0.62	13	5880	18½	18⅛	18½	+.27
Ross Str x	0.28	15	6372	33½	31⅝	33	+1⅛
RotechMed		24	332	18¾	18¾	18⅞	+⅛
RPM Inc.	0.48	17	1907	15⅝	15½	15⅝	+⅛
Ryan Fmly		13	2716	8⅞	8⅝	8⅞	+¼

AMEX PRICES

4 pm close June 24

AMERICA

Improving tech shares boost Dow

Wall Street

Technology companies staged a second session of gains in thin trading after the sharp weakness seen since the Nasdaq index set a record high of 1,249.15 on June 5, *writes Lisa Bransten in New York.*

In early afternoon trading, the Nasdaq composite, with about a 40 per cent technology issues content, was 8.96 ahead at 1,184.40 and the Pacific Stock Exchange technology index had gained 0.9 per cent.

Internet-related companies, which had borne much of the market's recent weakness, were among the strongest performers yesterday. Netscape Communications rose $3¼, or 6 per cent, to $58¾, Cybercash by $3, or 7 per cent, to $48⅞ and America Online by $2⅛, or 5 per cent, to $42.

Rising technology shares also boosted the Dow. IBM gained $1¼ at $99⅜, helping the blue chip index add 30.29 at 5,735.52 by 1 pm. The Standard & Poor's 500 rose 2.87 to 669.71 and the American Stock Exchange composite firmed 0.10 to 585.05. Volume on the NYSE was 187m shares.

Most technology stocks showed little reaction to an announcement made late on Friday by Cyrix, the semiconductor manufacturer, that its second-quarter loss would probably be larger than the expected $15m. Shares of Cyrix slid $5¼ or 24 per cent to $16½ and Intel, which is Cyrix's primary competitor, added $2⅝ or 4 per cent at $74.

Elsewhere, ValuJet rallied $1⅛ or 15 per cent to $8⅝ on news reports that the company's chief executive expected the airline to resume operations in 30 to 60 days.

ValuJet was grounded by the Federal Aviation Administration on June 17 after a stepped-up inspection programme, mounted by the FAA in the wake of the airline's May 11 crash, found serious safety deficiencies.

Morgan Stanley, the US investment bank, added $1 at $49¼; it agreed to buy Van Kampen/American Capital, a mutual fund company, for $745m. Nabisco rose $¼ to $36 on a restructuring plan that would result in a $338m decrease in 1996 net income but cut costs over the longer term. RJR Nabisco, which owns about 80 per cent of Nabisco, was $⅝ stronger at $33.

Canada

Toronto saw gains in financials and industrials but golds fell further after a drop of almost 2.4 per cent last Friday. The upshot was a TSE 300 composite index virtually unchanged at 5,048.72, up just 1.18, in turnover down from 54.4m shares to 25.45m after Friday's triple witching effect.

Dia Met Minerals put on C$1.75 at C$22.75 after an environmental assessment panel's recommendation, last Friday, of a diamond mine proposal put forward jointly by the company and Australia's BHP.

In industrials, Bombardier rose 60 cents to C$20.50 after it said that LIAT, a Caribbean regional airline, had agreed to purchase three 50-passenger de Havilland Dash 8 Series 300 aircraft for about C$58.9m; and after its Bombardier Eurorail subsidiary said it had won a Fl 110m (C$88m) order from Rotterdamse Elektrische Tram for 18 two-carriage trams.

Brazil up further 2%

Latin American markets made a quiet start to the day. The closure of the Venezuela market helped to keep the mood subdued and trading during the early morning contained few features.

Brazil was the most prominent performer, the SAO PAULO market building on Friday's gains. By lunchtime the Bovespa index was showing an improvement of almost 2 per cent.

In BUENOS AIRES, the Merval index had notched up an early gain of 0.7 per cent.

In contrast, MEXICO's stock market stayed trendless. The IPC index was lagging by 0.2 per cent after a dull morning session. Telmex and Cemex, both visibly weak on Friday, stayed on the downside.

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1996	% change sterling † Start of 1996	% change in US $ † Start of 1996
Austria	-3.06	-2.70	+4.09	+13.98	+7.54	+6.69
Belgium	-2.30	-2.32	+16.66	+5.90	-0.14	-0.94
Denmark	+1.17	+0.41	+17.76	+10.54	+4.92	+4.08
Finland	-1.15	-2.66	-11.92	+10.28	+3.87	+3.04
France	-1.31	-1.69	+11.49	+13.85	+8.31	+7.44
Germany	+0.02	+0.19	+15.87	+10.57	+4.34	+3.51
Ireland	-0.01	+2.32	+25.70	+14.52	+14.15	+13.24
Italy	+2.16	-0.33	+3.58	+9.21	+13.48	+12.58
Netherlands	-0.42	-1.26	+26.68	+14.89	+8.37	+7.50
Norway	-0.71	+1.94	+14.28	+13.39	+10.45	+9.56
Spain	+0.22	+2.82	+32.17	+17.00	+11.33	+10.44
Sweden	+0.22	-0.14	+22.27	+14.92	+15.56	+14.64
Switzerland	+2.25	+2.84	+30.33	+10.99	+2.13	+1.31
UK	-0.81	-0.89	+10.40	+1.62	+1.62	+0.81
EUROPE	-0.21	-0.30	+15.51	+8.35	+5.09	+4.25
Australia	+1.58	-0.56	+13.68	+0.90	+8.13	+7.27
Hong Kong	+0.08	-1.75	+17.96	+8.75	+10.50	+9.62
Japan	+0.56	+3.10	+39.64	+7.41	+2.47	+1.66
Malaysia	+2.37	+0.20	+5.02	+14.31	+17.20	+16.26
New Zealand	+0.91	+0.79	-0.51	-3.53	+0.63	-0.18
Singapore	+1.69	+0.15	+10.21	+3.61	+4.80	+3.96
Canada	+0.73	-3.16	+11.04	+7.90	+8.60	+7.73
USA	-0.03	-1.76	+22.01	+8.01	+8.88	+8.01
Mexico	-1.66	-6.06	+54.07	+14.06	+16.97	+16.04
South Africa	+0.60	+2.31	+23.76	+12.10	-5.61	-6.37
WORLD INDEX	+0.16	-0.21	+23.86	+6.02	+6.34	+5.49

† Based on June 21 1996.

EUROPE

Paris stages retail rally on Docks de France bid

A bid of FFr1,250 a share for Docks De France by the privately owned stores group Auchan allowed PARIS to stage a rally in the retail sector.

Docks De France was suspended for the day after closing at FFr1,090 on Friday; but Casino, also seen as a takeover target, rose FFr8.60, or 4.2 per cent, to FFr211.60, Promodes put on FFr22 at FFr1,410 and Pinault Printemps Redoute gained FFr33 at FFr1,696.

The CAC-40 index rose 13.45 to 2,097.63. There was action, too, in banks, and for more than one reason: Morgan Stanley was bullish on the sector last week and, yesterday, BNP rejected an SBC Warburg offer for its 83.9 per cent stake in Cie d'Investissement de Paris.

BNP climbed FFr8.30, or 4.6 per cent, to FFr188.30, Bancaire FFr11 to FFr584 and CCF FFr3.10 to FFr238.30.

Elsewhere, Canal Plus rose another FFr36, or 2.8 per cent, to FFr1,302 after last week's CS First Boston buy recommendation, and Michelin ended FFr4.50 higher at FFr254.10 on weekend talk that the time was aproaching for a revival in European consumer stocks.

FRANKFURT had the dollar, bonds and the Dow on its side, but the blue chip Dax 30 index was relatively subdued. It closed 14.41, or 0.6 per cent, higher at an Ibis-indicated 2,562.9 in turnover of DM8.4bn.

In contrast, the MDAX, covering the 70 stocks immediately below the 30 in the Dax 100 list, stayed relatively ebullient with a rise of 42.90, or 1.5 per cent, to 2,835.90, taking its gain to around 11 per cent over the past two months.

Mr Ralf Conen at Salomon Brothers in Frankfurt said that medium caps, until recently, had substantially underperformed the Dax 30 throughout the 1990s, but especially since the autumn of last year.

Now, however, there were a number of global niche players in the Dax with high export ratios and good market positions, he said. If one were to leave out the "torpedo" stocks, which had dived almost to oblivion, and perhaps construction and insurance shares, a portfolio of these stocks might be a safer haven than the Dax 30 for the time being.

MADRID broke new high ground, with the general index up 1.76 at 373.84. Banks and electricity utilities rose at roughly the same rate, departing from last week's trend which saw some switching into the former. In the latter, Endesa rose Pta90 to Pta8,130 after the industry minister Mr Josep Pique said that it would not be privatised further until the sector is deregulated.

MILAN shares closed sharply lower, pushed down by a high number of stocks going ex-dividend and the absence of an interest rate cut over the weekend. The Comit index ended off 2.20 at 157.44.

Analysts suggested that the next possible occasion for an interest rate cut would be early July, when the June inflation data are due to be published. A 0.5 percentage point reduction had been widely expected over the weekend.

But Milan was also held in check by technical reasons with 33 shares going ex-dividend. They included ENI, Pirelli and Stet.

The bio-medical group Esaote made a sparkling stock market debut, surging to L5,945 against a flotation price of L3,900.

ZURICH continued to move ahead as investors piled into the drugs sector ahead of next month's formal completion of the merger of Ciba and Sandoz.

The SMI index ended 14.2 higher at 3,701.5 to extend its run of uninterrupted gains to 10 days. Sandoz added SFr31 at SFr1,441 and Ciba improved SFr27 to SFr1,532. The two groups account for more than a fifth of the SMI index.

But a UBS analyst said both stocks were beginning to look overvalued and could be heading for a near-term correction.

Bank and insurance shares turned higher on positive broker recommendations. CS Holding rose SFr1.25 to SFr115.

AMSTERDAM shares closed slightly higher, with a firm opening on Wall Street offsetting another bad day for the electronics giant Philips. The AEX index finished 0.38 points up at 554.49.

Philips, the day's most active stock, eased further on worries about the semiconductor market ahead of this week's presentation to analysts. It closed down Fl 1.40 at Fl 54.20 after touching another new low of Fl 53.40.

"It's still the same old semiconductor worries. Some analysts have been considering downgrading their earnings forecasts," said one trader.

The foods group Ahold rose Fl 1.50 to Fl 92.90. The uptick followed a forecast of average earnings per share growth of 15 per cent from 1997 on the back of the group's planned Stop & Shop acquisition.

TEL AVIV fell after the Bank of Israel raised interest rates by 1.5 percentage points to 17 per cent against an expected rise of 0.5 or 1.0. The Mishtanim index shed 1.39 to 201.71.

WARSAW hit its highest level since April 1994. The Wig index rose 85.3, or 2.9 per cent to 13,483.6, with turnover up 2 per cent at 128.1m zlotys.

The market was lifted by strong bank results for May. BPH and WBK had particularly good figures and rose by 5.6 per cent and 3.7 per cent respectively in active trade.

STOCKHOLM had a quiet day but Astra, the pharmaceuticals major, led the market into a repectable rise, the Affärsvärlden General index closing 8.0 better at 1,992.1 in below average turnover of SKr2.5bn.

Astra recovered after recent falls, up SKr2.50 at SKr289.50.

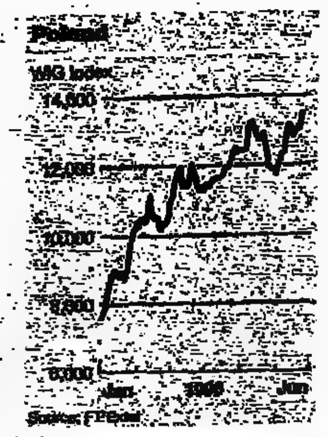
LISBON was driven to a new all-time high by a very few blue chips. Portugal Telecom itself peaked Esc65 higher at Esc3,890 on a strengthening dollar, and the stock's gains in New York on Friday; Sonae put on Esc105 at Esc4,089 after a buy recommendation from Banco Portugues de Investimento, which said that the stock was currently some 2 per cent below net asset value. The BVL 30 index moved forward 6.17 to 1,939.31.

Written and edited by William Cochrane and Jeffrey Brown

FT-SE Actuaries Share Indices

Jun 24						THE EUROPEAN SERIES		
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1690.22	1690.56	1690.53	1691.00	1691.34	1690.70	1690.20	1690.67
FT-SE Eurotrack 200	1720.49	1721.60	1722.34	1723.74	1724.02	1723.64	1722.58	1722.72
	Jun 21	Jun 20	Jun 19	Jun 18	Jun 17			
FT-SE Eurotrack 100	1695.00	1694.92	1696.41	1695.57	1681.90			
FT-SE Eurotrack 200	1718.63	1720.03	1726.18	1725.81	1724.19			

Base value 1000 (26/10/90); High/day: 100 - 1692.82; 200 - 1724.89 Low/day: 100 - 1689.81 200 - 1720.38. † Partial.



ASIA PACIFIC

Four-year highs in Tokyo after Nikkei breakthrough

Tokyo

Equities registered another four-year high, with traders saying that a Nikkei breakthrough last Friday had contributed to the positive sentiment, *writes Emiko Terazono in Tokyo.*

The 225 index rose 72.55 to 22,603.20, midway between a day's low of 22,503.92 and a high of 22,701.57. By last Friday it had recovered one-third of the ground lost between December 1989, when it hit an all-time high of 38,915, and August 1992, when it bottomed at 14,309.

Volume totalled 453m shares, against 514m. The Topix index of all first section stocks climbed 9.31 to a four-year peak of 1,718.91 and the Nikkei 300 added 1.97 at 319.32. Advances led declines by 587 to 446, with 189 issues unchanged.

In London the ISE/Nikkei 50 index put on 1.90 at 1,528.89.

US pension funds and other foreign investors bought large-capitalisation steels and export blue chips, including carmakers. One analyst noted that companies listed on the New York Stock Exchange seemed to be seeing demand due to the relatively more stringent disclosure procedures.

Honda Motor rose Y60 to a record Y2,940, Toyota Y80 to Y2,780 and Nissan Y30 to Y998. In the big steels, Nippon Steel moved up Y4 to Y378 and NKK by Y4 to Y333. Shipbuilders were also higher, Mitsubishi Heavy Industries adding Y14 at Y955 and Ishikawajima-Harima Heavy Y6 at Y528.

Sumitomo Corporation, the trading house which faces losses of $1.8bn due to unauthorised copper trading by one of its former traders, was weak on fears there could be worse news to come. The shares shed Y20 to Y1,000 on worries that its losses would be more than double the given figure.

Mining issues were affected by declines in copper prices, with Sumitomo Metal Mining falling Y13 to Y952.

Banks were higher. Hokkaido Takushoku Bank, the most active issue of the day, rose Y14 to Y359 and Industrial Bank of Japan by Y40 to Y2,740. Brokers were firmer, Nomura Securities appreciating Y50 to Y2,170 and Nikko Securities also by Y50, to Y1,220.

High-technology stocks were mixed. Hitachi put on Y10 at Y1,040 and Sony Y50 at Y7,150, but Fujitsu fell Y9 to Y991 and NEC was unchanged at Y1,150.

In Osaka, the OSE average gained 115.23 at 23,742.14 in volume of 27.6m shares.

Roundup

The roller coaster took a downward plunge in SHENZHEN, where the B shares fell by 4.87, or 5.5 per cent, to 84.01 on continued worries that the authorities were about to enforce regulations limiting the hard-currency market to non-nationals.

"A crackdown on buying by mainland Chinese could be imminent," said one Hong Kong analyst. The uncertainty was reflected in sharply lower activity. Turnover, at HK$54m, was barely a third of Friday's level.

HONG KONG closed higher as futures-linked arbitrage trading improved liquidity and created selective interest in stocks. The Hang Seng index ended just off its session best, gaining 104.43 at 10,959.72.

Good demand for property developers and Hongkong Telecom was said to have been the main driving force. HK Telecom rose 30 cents to HK$13.70. A number of leading brokers were said to have accumulated the stock heavily in late trade.

SEOUL closed sharply lower after gloomy economic forecasts had weakened sentiment among leading stocks. The composite index ended 13.88 off at 842.53.

Korean Air Lines went limit down, bottoming at Won18,300 before closing Won800 off at Won18,600. The shares were hit by rumours that a major shareholder was selling in an effort to reduce his tax burden.

BANGKOK dropped nearly a percentage point. The SET index closed 11.97 down at a seven-month low of 1,223.40. Investors remained concerned over the political situation, fearing a challenge to the leadership of the prime minister, Banharn Silpa-Archa, by some of his coalition partners.

There were worries, too, that second-quarter earnings in most key sectors would be poor. Communications, building materials and financials bore the brunt of the selling.

JAKARTA recovered after Friday's political protest losses, the composite index closing 5.923 better at 578.778.

"People are buying blue chips again because they look cheap, but it is not a convincing rebound," said a dealer.

"It is just a technical rebound at the moment. There is a fair amount of caution around, both on the buying and selling side," said an institutional sales manager.

TAIPEI traders said that domestic plastics and textiles shares had benefited from labour unrest in South Korea, with foreign buyers of chemical fibre transferring part of their orders to Taiwan.

The weighted index closed 29.90 ahead at 6,431.25 after a high of 6,489.98.

Plastics shares also reflected increasing orders from China. Formosa Plastics advanced T$3 to T$60 and Nan Ya Plastics T$2 to T$55.50.

KUALA LUMPUR was lifted by a 60-cent gain in Telekom Malaysia, to M$23.10. Dealers said that one broking house believed to be acting for a fund, was a heavy buyer.

The KLSE composite index moved forward 4.62 to 1,151.0 in volume of 298m shares.

Transport-related stocks led activity amid takeover rumours, with Integrated Logistics up M$1 at M$6.95 and Tiong Nam Transport ahead M$3.20 at M$14.10.

MANILA's investors only nibbled at blue chips, focusing on second and third line stocks as the composite index rose 14.88 to 3,227.16. Brokers said that professionals were waiting for the listing of the Empire East IPO, and that they would rather speculate on stocks in the oil sector in the meantime.

Golds put in minor recovery

Johannesburg traded quietly in a session which dealers described as mixed. Industrial shares eased while gold stocks, which moved steeply lower on Friday, put in a minor recovery on the back of a better bullion price.

Dealers said there was little foreign investor interest. "Tomorrow's local elections in KwaZulu-Natal look to be keeping matters on hold," said one trader. The all-share index finished 3.8 firmer at 6,859.1. The industrials index receded 6.5 to 8,109.7, but the golds index put on 5.5 at 1,792.2.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JUNE 21 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JUNE 20 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (79)	203.85	0.6	196.23	140.44	162.03	171.44	0.2	4.30	202.94	195.17	139.65	160.83	171.11	212.18	163.30	184.42
Austria (25)	186.20	-1.4	179.24	128.28	148.00	147.94	-1.1	1.92	188.85	181.04	129.22	149.68	149.62	199.28	169.11	196.63
Belgium (27)	207.18	-0.2	199.44	142.73	164.68	160.75	0.1	4.14	207.68	199.74	142.10	164.59	160.67	215.81	186.06	195.57
Brazil (28)	178.37	3.2	171.70	122.88	141.78	329.21	3.2	2.01	172.79	166.18	118.22	136.94	318.85	178.37	123.97	151.51
Canada (89)	159.91	-0.3	153.94	110.17	127.11	158.18	-0.5	2.40	160.47	154.33	109.79	127.17	159.89	165.12	134.14	142.80
Denmark (30)	300.55	0.2	289.32	207.06	238.89	240.61	0.5	1.88	299.98	288.50	205.24	237.74	239.51	305.17	276.05	276.18
Finland (23)	192.75	-0.2	185.65	132.79	153.21	188.00	0.0	2.66	193.22	185.83	132.20	153.13	188.00	278.11	171.73	237.31
France (97)	192.75	-0.1	185.55	132.79	153.21	156.69	0.2	3.06	192.86	185.49	131.96	152.85	158.36	198.39	167.70	183.33
Germany (60)	169.44	-0.1	163.11	116.73	134.68	134.68	0.2	1.84	169.58	163.10	116.03	134.40	134.40	174.85	155.66	160.60
Hong Kong (59)	425.00	-0.4	409.12	292.80	337.81	422.38	-0.4	3.37	426.71	410.39	291.96	338.78	424.08	451.19	348.81	360.57
Ireland (16)	289.33	-0.2	278.52	199.33	229.97	257.24	-0.1	3.34	289.95	278.86	198.38	229.79	257.56	290.82	233.90	237.70
Italy (59)	82.97	-0.6	79.87	57.16	65.95	95.37	-0.3	2.31	83.48	80.28	57.10	66.14	95.69	84.53	67.22	75.38
Japan (481)	157.50	-0.1	151.61	108.51	125.19	108.51	0.6	0.71	157.66	151.64	107.88	124.96	107.88	164.68	137.75	146.71
Malaysia (107)	564.02	0.3	542.94	388.57	448.31	542.29	0.4	1.66	562.40	540.89	384.80	445.71	540.38	585.09	425.77	550.27
Mexico (18)	1201.88	-2.1	1156.97	828.02	955.32	9852.12	-1.7	1.34	1227.34	1180.40	839.74	972.69	10128.09	1325.65	791.99	841.52
Netherland (19)	293.18	-0.2	282.22	201.98	233.03	229.25	0.1	3.14	293.78	282.54	201.00	232.83	229.01	298.89	245.79	250.77
New Zealand (15)	79.52	0.0	76.55	54.78	63.21	62.21	-0.1	4.36	79.50	76.46	54.39	63.01	62.24	85.49	75.94	79.25
Norway (35)	253.40	-0.3	243.93	174.57	201.41	224.84	-0.1	2.02	254.14	244.42	173.88	201.41	225.04	256.94	222.24	233.64
Singapore (44)	423.35	0.3	407.54	291.67	336.50	275.02	0.4	1.38	422.10	405.95	288.80	334.52	273.97	465.21	355.61	386.80
South Africa (45)	360.79	0.1	347.31	248.56	286.77	344.17	0.2	2.10	360.35	346.56	246.55	285.58	343.44	437.76	339.37	348.18
Spain (37)	182.43	0.6	175.62	125.68	145.01	177.64	0.8	3.18	181.28	174.34	124.03	143.67	176.27	182.99	145.15	146.59
Sweden (48)	357.77	-0.3	344.40	246.46	284.37	351.90	0.0	2.41	358.87	345.14	245.53	284.41	351.90	360.77	286.46	267.44
Switzerland (38)	239.08	0.3	230.14	164.71	190.03	186.86	0.8	1.58	238.36	229.24	163.09	188.91	185.43	252.34	191.24	200.66
Thailand (46)	165.89	-0.1	159.69	114.29	131.86	163.21	0.1	2.02	165.90	159.64	113.57	131.55	163.12	193.65	148.74	174.94
United Kingdom (200)	232.40	-0.2	223.72	160.11	184.73	223.72	-0.1	4.17	232.96	224.05	159.39	184.62	224.05	237.43	210.29	219.02
USA (627)	271.37	0.7	261.23	186.96	215.70	271.37	0.7	2.18	269.55	259.24	184.43	213.62	269.55	276.47	221.66	222.42
Americas (772)	247.84	0.6	238.58	170.74	196.99	208.36	0.6	2.18	246.25	236.83	168.49	195.16	207.03	252.43	203.00	203.54
Europe (714)	209.41	-0.1	201.58	144.27	166.45	184.09	0.1	3.07	209.67	201.65	143.46	166.17	183.90	211.58	187.21	191.05
Nordic (136)	305.30	-0.2	293.90	210.33	242.67	264.79	0.1	2.32	305.98	294.27	209.35	242.49	264.69	305.61	258.76	260.47
Pacific Basin (931)	170.10	-0.1	163.74	117.19	135.20	119.39	0.5	1.15	170.23	163.72	116.47	134.91	118.89	177.01	148.96	155.93
Euro-Pacific (1645)	186.36	-0.1	179.40	128.39	148.13	143.95	0.3	2.05	186.56	179.42	127.64	147.85	143.52	190.57	166.51	170.46
North America (726)	264.48	0.6	254.60	182.21	210.22	263.79	0.6	2.19	262.80	252.75	179.81	208.27	262.12	269.52	216.79	217.49
Europe Ex. UK (514)	191.83	-0.1	184.47	132.02	152.32	159.96	0.2	2.48	191.76	184.42	131.20	151.97	159.60	193.57	169.65	171.56
Pacific Ex. Japan (350)	288.05	0.1	277.29	198.45	228.96	248.86	0.0	3.07	287.88	276.87	196.97	228.15	248.63	296.69	243.69	253.48
World Ex. US (1735)	187.54	-0.1	180.54	129.21	149.07	146.36	0.3	2.06	187.72	180.54	128.44	148.77	147.94	191.55	167.36	171.20
World Ex. UK (2162)	211.47	0.3	203.57	145.69	168.09	179.57	0.5	1.91	210.88	202.81	144.28	167.12	178.66	213.05	181.65	183.62
World Ex. Japan (1881)	244.45	0.3	235.32	168.41	194.30	231.81	0.4	2.53	243.62	234.30	166.66	193.07	230.65	247.55	206.46	210.02
The World Index (2362)	213.39	0.2	205.41	147.01	169.61	183.77	0.5	2.11	212.89	204.74	145.66	168.72	182.94	214.70	184.49	188.73

 Markets Closed 21/6/96: Finland and Sweden. Latest prices were unavailable for this edition. CONSTITUENT CHANGE, DELETION: (effective June 26): Nowsco Well Services (Canada).

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■ **Foreign investment:** by Manuela Saragosa

Car makers get the jitters

Plans for a national car have shaken confidence in Indonesia's support for free trade

When Indonesia announced it would develop a national car – leaving established investors in the country's automotive sector at a disadvantage – alarmists warned it would mark the end of two years of record foreign investment levels.

Japanese trade officials, representing Japan's dominant role in Indonesia's automotive sector, arrived in the country to complain that the policy breached tenets of the World Trade Organisation. Sir Leon Brittan, the European Union's trade commissioner, in Jakarta in April asked: "Who's to say that if this is done in the car sector it could not be done in other sectors?"

But Sanyoto Sastrowardoyo, the country's investment minister, tells a different story. Touting record foreign investment approval figures for the first five months of this year, he says confidently: "We have lost nothing. Nothing at all."

Indonesia approved foreign investment projects worth $18.3bn in the first five months of this year compared with $16.2bn in the same period a year earlier. Japanese investment approvals accounted for 26 per cent of the five-month figure. If things continue in this vein, this year's total approvals figure will exceed 1995's record $39.9bn.

But Indonesia cannot afford to be nonchalant in its attitude to outside capital inflows which are needed to finance the bulk of its non-oil trade and current account deficits.

Critics of the car policy – under which a company owned by President Suharto's youngest son was awarded tax and tariff breaks not available to existing automotive companies to manufacture what is being touted as a national car in co-operation with South Korea's Kia Motors – say it flies in the face of Indonesia's commitments to free trade agreements.

The project threatens to violate a World Trade Organisation article which stipulates that imports cannot be treated differently from locally-made products. In addition, a change in the tax treatment according to a car's local content – initially aimed at placating international criticism of the project but with no immediate benefit to existing investors – is believed to breach a WTO "standstill" agreement under which Indonesia vowed not to add new rules to the tariff and tax structure for its automotive industry.

Mr Sanyoto says the government has prepared its case should the issue be taken to the WTO. "Japanese businesses are noisy about it, they make a lot of fuss. But that's because ... they have made big money out of the automotive industry and all of a sudden they have to share it with others," he says.

One point of resentment is that Japanese investors in the country's automotive industry produce cars only for the domestic market. "They would not allow us to export," Mr Sanyoto says. "So we are in a position to be dominated by them."

Mr Sanyoto argues that "infant industries need protection". But Indonesia also has international commitments. Mr Suharto himself pushed for an early free trade schedule under the Asia Pacific Economic Co-operation forum, committing Indonesia to liberalise trade in the region by the year 2020. And under the Association of Southeast Asian Nations Free Trade Agreement (Afta), Indonesia has pledged to reduce tariffs to a maximum of 5 per cent by the year 2003.

The government believes Indonesia has already made significant headway in liberalising its economy and securing its comparative advantage. Mr Sanyoto cites political stability over the past 30 years, a wealth of natural resources, a large population and workforce and the absence of controls over capital flows as examples.

Deepak Sabharwal, president director of ICI in Indonesia, says the biggest boost came from the 1994 deregulation package abolishing divestment requirements, under which foreign companies were obliged to hand over majority shareholding to an Indonesian partner after 10-15 years of operating in the country.

Following the 1994 deregulation package, ICI invested $10m in a surfactants plant and $24m in an expansion of its paints manufacturing unit. The company is considering further expansion of its presence in Indonesia.

The car policy has taken the focus away from other concerns. For example, the minimum wage was increased by about 30 per cent this year after doubling in real terms between 1989 and 1994. "Wage increases have begun to reduce competitiveness in labour-intensive manufacturing," the World Bank noted in its annual report on Indonesia.

Tax collection is another concern. "There is a lot of pressure on tax officials to meet the budget on tax collection and foreign companies are an easy target," says one investor. According to a Japan External Trade Organisation survey of Japanese manufacturers investing in Indonesia, the top four problems encountered included tariff customs procedures, wage increases, tax and bureaucracy.

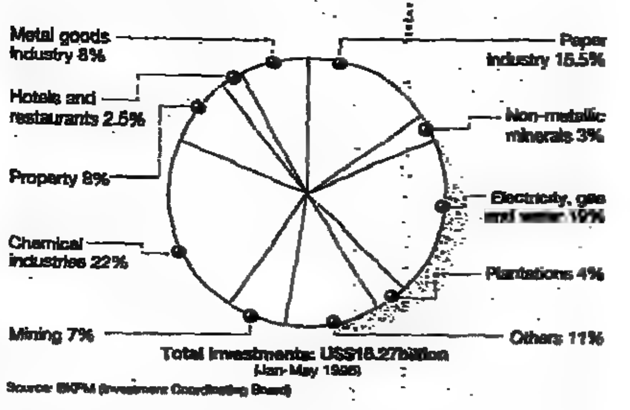
Some investors are also starting to demand more competitive terms in line with neighbouring countries. Malaysia, for example, is offering investors 10-year tax holidays depending on where they invest in the country. "We are working on how we could give additional tax facilities," says Mr Sanyoto.

The government has already extended a facility waiving value added tax and luxury tax payments on imports of capital goods for the first three years of new investments.

The issue becomes pressing in light of the country's tariff reduction requirements under Afta which is likely to affect investors' decisions on regional sourcing of raw materials and products. ICI's Mr Sabharwal, although bullish about Indonesia's potential, expresses concern that under the conditions that would prevail in 2003 under Afta, large ICI investments may be drawn to other Asean countries by better incentives.

The risk is that comfortable levels of investments will allow for complacency: what some economists refer to as Indonesia's irregular bouts of "deregulation fatigue". Mr Sanyoto dismisses this. "Our government is committed to improve the business climate," he says.

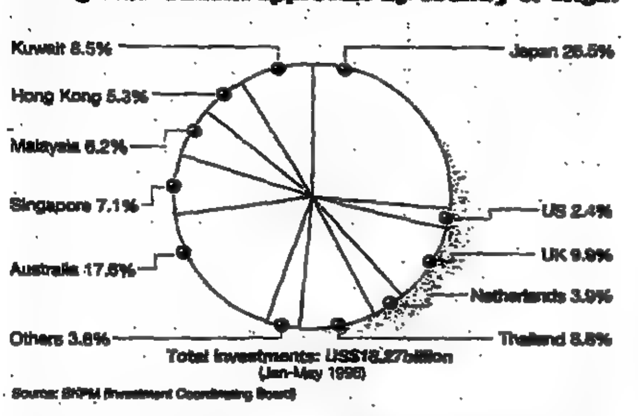
Foreign investment approvals by sector



Total investments: US$18.27billion (Jan-May 1996)

Source: BKPM (Investment Coordinating Board)

Foreign investment approvals by country of origin



Total investments: US$18.27billion (Jan-May 1996)

Source: BKPM (Investment Coordinating Board)

■ **Foreign policy:** by Manuela Saragosa

Ready for a showdown

Continued trouble in East Timor will not hamper global ambitions, insists the foreign minister

Ali Alatas: 'The cornerstone of our foreign policy will remain Asean'

Despite Indonesia's sprawling size and a population which ranks as the world's fourth largest, many still regard the country an inward-looking nation with little international political weight. But this is a tag which Ali Alatas, Indonesia's energetic foreign minister, does not subscribe to.

"There was a period from 1968 until the beginning of the 1980s when indeed almost all our attention was directed towards economic, and social rehabilitation of the country," says Mr Alatas. "Now, on the contrary, we are being over-extended. I don't think [the description] applies any more."

Since his appointment as foreign minister in 1988, Mr Alatas has been widely credited with steering Indonesian foreign policy away from the dominance of the security-oriented military and creating a bigger, more pro-active role for the foreign ministry.

Under Mr Alatas, Indonesia has become a member of the United Nations Security Council, has spearheaded calls for a nuclear-free zone in the Pacific, headed the Non-Aligned Movement (NAM) for three years until January this year, played a pivotal role in the Cambodian peace talks, hosted South China Sea workshops to facilitate a solution to overlapping claims on the Spratly Islands and assumed a higher profile in regional trade agreements.

Nevertheless, the politically disputed territory of East Timor remains one of the most serious obstacles to Indonesia's international ambitions; wherever he goes, Mr Alatas is confronted with the issue. The former Portuguese colony was invaded by the Indonesian military in 1975 and annexed a year later, in a move condemned by the United Nations which still recognises Portugal as the administering power over the territory.

International human rights organisations regularly accuse Indonesia of violating human rights in the territory where local dissidence often erupts into bloody conflict.

Mr Alatas plays down the East Timor's impact on Indonesia's foreign policy. "It is a stone in my shoe rather than a big abscess as some people describe it. Sometimes it makes walking a bit difficult. If East Timor really has been such a dead weight could we have become a member of the UN Security Council and headed the NAM?"

Observers say the fact that Indonesia has been able to pursue a more active role in the international arena despite a dubious record on human rights is largely the result of the country's economic development and the growing political importance of the region which groups some of the world's fastest growing economies.

The Association of Southeast Asian Nations (Asean), which groups Indonesia, Malaysia, Singapore, Vietnam, Brunei, Thailand and the Philippines, has pushed its own free trade agenda and agreed to lower tariffs to a maximum of 5 per cent by 2003. "The cornerstone of our foreign policy will remain Asean. It is our neighbourhood," says Mr Alatas.

More recently, leaders of the seven Asean member states unanimously endorsed the expansion of the organisation's membership to include Burma, Cambodia and Laos.

With all 10 countries of the region likely to be incorporated into Asean before implementation of the Asean Free Trade Area (Afta), the grouping would become the largest free trade zone in the world, totalling more than 450m people.

Despite protests by dissident groups in Burma and Cambodia – both increasingly politically unstable – Indonesia was among the Asean members advocating that internal political questions be ignored when considering entrance for new members.

"For a few years now, whenever Asean met with its dialogue partners we have had discussions on how to approach Myanmar [Burma]," says Mr Alatas. "Major [Asean] dialogue partners tend to want to apply sanctions or isolate it until it falls into line. We believe in Asean that such an approach will be counter-productive. We know Myanmar. They are part of our world. To now denounce Myanmar will not work. What will work is to quietly sit down with them and talk with them."

Cynics note that there are other interests at stake. The addition of Burma, Cambodia and Laos in Asean will expand the organisation to include all countries along China's southern border. Most Asean nations, some of which have overlapping territorial claims with China in the South China Sea, consider China their most immediate security threat.

Until recently, conflicting claims over the Spratly Islands in the South China Sea threatened to embroil Indonesia which had been hosting workshops between claimant parties to deflect tensions. Chinese maps started to show a dotted line which extended to near Indonesia's Natuna islands, the location of a giant gas field development between the US's Exxon and Indonesia's state-owned oil and gas company, Pertamina.

Mr Alatas says China has responded orally to a diplomatic note he sent to Beijing on the matter and that he is satisfied with the response. "We got an assurance that if there ever was going to be a difference of opinion with regard to the seas between Natuna and the Spratly Islands, China would be prepared to negotiate such issues peacefully and on the basis of the International Law of the Sea Convention," Mr Alatas says.

"I welcomed that statement because we are confident that, based on the articles of the convention, there is no way that China's [claims] could extend so far south."

It is a sign of Indonesia's awareness of the south-east Asian region's growing political weight that Mr Alatas is confident Indonesia would win a vote in the UN General Assembly if the issue of East Timor were brought there. Backing it would be members of Asean and NAM where Indonesia has been actively pushing for a solution with the World Bank and International Monetary Fund to the debt problems faced by 50 of the world's least developed countries.

"We're ready for a showdown [in the UN General Assembly] any time," he says. "We have the numbers and they [Portugal] know that. But we want a solution which is more or less durable and where no one feels a loser. East Timor is not going to pull Indonesia down in its activities in the world."

■ **Telecommunications:** by Manuela Saragosa

Upwardly mobile

Growing foreign interest is an indication of the market's perceived potential

In Indonesia, mobile phones are becoming as common as the ubiquitous satellite dishes which dot the countryside in even the more remote regions of Sumatra and Kalimantan.

Rising average incomes and a corresponding thirst for communication prompted the government to open up the telecommunications sector to foreign investment two years ago to speed up and finance its development.

The high level of foreign interest for what at present amounts to a tiny market – early this year there were only about 1.7 lines per 100 inhabitants and an estimated 200,000 subscribers to mobile phone networks – is a sign of the market's perceived potential.

The overhaul of Indonesia's telecoms sector has seen two state-controlled companies – Telkom, the domestic carrier, and Indosat, the international carrier – list overseas in the past year while foreign investors have invested in expanding local line networks, cellular operations and satellite links.

The jury is still out on whether prices paid by foreign investors to secure a slice of the market are justified, particularly in a country where regulatory risks are part of the gamble. "How can something that has nothing today be worth so much?" asks one Singapore-based analyst.

In addition, a law giving Telkom the right to own a stake in all companies offering telecoms services and Indosat a minority stake in its direct competitor, Satelindo, will, say analysts, create conflicts of interest as competition between Indonesia's various telecoms services providers intensifies.

But there is little doubt surrounding the sector's perceived potential. In a report on Telkom earlier this year, Merrill Lynch estimates Indonesia's mobile phone penetration "could conceivably be 10 times current levels even at current levels of economic wealth", but that growth "has been restrained by abnormally high entry barriers".

The government predicts there will be a million subscribers in the Indonesian cellular market by 2000 and that operators of the Global System for Mobile (GSM) network – a digital network with international roaming capability – will account for two thirds of market share.

In February this year, PTT Nederland paid $304m in cash for a 17.3 per cent stake in Telkomsel, an Indonesian GSM operator which is partly owned by Telkom and Indosat, the state-controlled domestic and international carriers respectively. Indosat estimates the number of subscribers at Telkomsel, which launched its services in Jakarta in May this year, will rise to 120,000 nationally at the end of 1996 compared with 55,000 now.

The Telkomsel deal completed a $1bn triangle linking foreign operators to an Indonesian GSM operator. Last year, Deutsche Telekom's unit DeTeMobil paid $586m for a 25 per cent stake in Satelindo, which is partly owned by President Suharto's youngest son Bambang Tribatmodjo.

That deal was followed by Nynex of the US joining Japan's Mitsui and the Asian Infrastructure Fund to buy a 22 per cent stake for $250m in another GSM operator called Excelcomindo.

Highlighting some of the regulatory risks faced by investors, the Nynex stake caused some consternation because the government had initially stated that only two companies – Satelindo and Telkomsel – would be given GSM licences.

Outside the GSM operators, there are three AMPS 900 – analogue – regional mobile phone operators and Mobisel, also an analogue network operator, which was awarded a nationwide licence.

So far the government has indicated that no capacity is left for additional GSM operators although it is investigating introducing further cellular operators on PCN/PCS – digital high frequency – services. But uncertainty remains because "the government has given no indication as to the number of potential licences it may in future award or their coverage", Merrill Lynch's report on Telkom noted.

Indosat is selling 2.5 per cent of its minority stake in Telkomsel from which it expects to raise between $40m and $50m to prepare financing for new PCN/PCS cellular ventures. The company, like Telkom, is working on being included in a pilot project for such a system in east Java.

The introduction of foreign investment in expanding fixed lines has also been an important development in the past year. Ahead of Telkom's privatisation last November, Indonesia introduced a completely novel way of doing this.

So-called joint-operating schemes were set up, giving five consortia, each of which includes at least one international telecoms company, the task of installing and managing 2m additional lines for the next 15 years in five different regions of the country in revenue-sharing arrangements with Telkom.

Under the scheme, Telkom alleviated the burden of financing the installation of new lines. Financial benefits included an initial payment from each international consortium operating a regional franchise and monthly guaranteed payments throughout the 15-year period. Telephone tariffs are reviewed roughly every three years and are due for renewal later this year but there is no explicit regime on the issue.

Competition between mobile phone operators is limited because tariffs are regulated by the government but market participants are finding alternative ways of competing.

"Right now there's only one pricing plan for air time but we see that in the future there will be much more need for flexibility," says Carlson Smith, executive adviser to Mobisel. In the meantime, "you can tailor your packages differently to target different market segments like a different up front cost or security deposits or do some financing depending on customers' ability to pay".

But like all Indonesia's mobile phone operators, Mobisel is partly owned by Telkom which along with Indosat is the industry's designated "service co-ordinator".

"Who's to say that Telkom may not at some point be favourably inclined towards a mobile phone operator in which it has the largest stake?" asks a Singapore-based analyst.

Others brush off these concerns. "Because the expansion of private sector investment has been so rapid, the government is on a learning curve and is likely to be conservative in its application of regulatory changes," says James Spence, head of research at WI Carr Indonesia in Jakarta.

Tricky business: regulatory risks are part of the gamble for investors

Power: by Manuela Saragosa and Robert Corzine

Growing demand whets appetites

Private projects have flooded in but distribution must be improved if they are to pay off

Ever since Indonesia kicked off its privatisation program for power generation 1990, solicited and unsolicited private power projects have poured into the country.

Indonesia is estimated to need about $11.5bn in private investment for power sector expansion over the next 10 years and investors' appetites have been whetted by the rapid growth in energy demand.

Industrial demand has been growing at about 25 per cent per year and with a population of more than 190m people and low per capita consumption of 380kWh per year, rapid demand growth is expected to continue well into the future.

Brown-outs in most urban centres have become a thing of the past. But industry executives warn that unless PLN, the state electricity company, works rapidly over the next few years to improve its transmission and distribution system, the time and energy being devoted to getting private power projects off the ground could prove futile.

Part of the problem is the way in which the privatisation programme has proceeded. Industry analysts say many of the private power projects which have been finalised are not necessarily the most efficient or cost-effective, raising questions about PLN's ability to fulfil its obligations to buy electricity from private power plants.

The closest private power projects come to a government guarantee of PLN's obligations is a so-called "soft comfort" letter from the ministry of finance which states that PLN, as a public utility, is supposed to buy electricity from private power plants.

In addition, the system of awarding contracts for projects is not transparent and there are hurdles to finalising contracts which are difficult to overcome without a politically well-connected local joint-venture partner.

"Project-by-project implementation involving powerful, politically well-connected business groups, without clearly defined objectives and plans, make national consensus on the appropriateness of private power and privatisation difficult, if not impossible," says Peter Jessick, a former private power adviser to the government.

Paiton I, the $2.5bn coal-fired 1,230MW project awarded to a Mission Energy-led consortium of Mitsui & Co, GE Power Funding and Batu Hitam Perkasa, in which the prominent businessman Hashim Djojohadikusomo has a stake, was Indonesia's first private power "experiment".

Negotiations to finalise its financing and conclude a power purchase agreement (PPA) with PLN dragged on for two and a half years. Paiton I set out that PLN must buy at least 83 per cent of the plant's capacity whatever the demand for electricity – termed a take-or-pay clause – at a PPA rate of $0.0856 for the first six years, coming down eventually to $0.0554. Government officials admit this is expensive but say that it was a necessary part of the learning experience.

The project was to have set a benchmark for the industry. PLN has been successful in bringing prices down in PPAs agreed since, partly because competition for projects has been intense.

Nevertheless, there is concern that once Paiton I comes on line in 1998/9 and other projects follow soon after, PLN will face transmission bottlenecks.

Unless investments are made to resolve these bottlenecks and if demand growth is less than expected, the take-or-pay contracts PLN has signed with private power projects will force the cash-strapped organisation to buy power from private plants while reducing generation at its lower cost hydro-electric and coal-fired plants.

PLN is currently separating generation from distribution with the aim of publicly listing its power generation subsidiaries in the next two years.

But critics say that, as the power sector is partially privatised, PLN must become a commercially viable operation. Yet as long as electricity tariffs are set by the president, this is not possible. At present tariffs are uniform throughout Indonesia and do not reflect the cost of providing the service.

In the meantime, negotiations continue for the setting up of gas-fired, combined-cycle power projects. Most of the private power projects signed to date have been for coal-fired plants, partly because the government wants oil and gas exports to earn the country foreign exchange but also because the issue of risk allocation for gas-fired power plants has stalled negotiations.

The most high-profile of the combined cycle projects under negotiation are Enron's 400MW plant in east Java and the British Gas 500MW Serpong plant in west Java.

The difficulty in getting a combined-cycle project off the ground is that in order to obtain financing, someone must guarantee the gas supply for the life of the power plant.

"No-one wants to take that risk," says one industry executive. "The independent power project operator tries to push it on to the fuel supplier but Pertamina, which works with the production-sharing contractor to develop the gas field, doesn't want to take the risk either and PLN is not prepared to guarantee any energy off take."

Matters would be different if Indonesia had a gas pipeline grid with a number of different fields ensuring a constant flow of gas.

Natural gas provides just 2 per cent of total domestic energy consumption. Perusahaan Gas Negara (PGN), the state-owned national gas company, has ambitious plans to raise that figure to 20 per cent within 10 years.

It also intends to restructure its operations to encourage wider gas use and to allow private companies into the gas market. Separate transmission and distribution arms will oversee the movement of gas, while a new PGN subsidiary, PT Co-Generation, will promote gas use in small-scale power plants, such as those for high-rise buildings.

PGN has also announced plans for two large pipeline projects that would help form the basis for a domestic gas grid. The first would be an 800km, $600m pipeline to carry gas from the Asamera field to the Duri oil field in Sumatra and on to Batam island.

It will be followed by construction of a second pipeline to take Asamera gas to Palembang in southern Sumatra and Cilegon in west Java.

But many industry executives doubt whether a comprehensive domestic pipeline network will ever be put in place. "A domestic gas grid is a dream," says one US executive in Jakarta.

He says that in a tropical climate, demand for gas from households would be limited to cooking, not justifying the expense of installing a distribution system, even in densely populated areas such as Java.

There is also uncertainty as to whether there are sufficient reserves near Java and Sumatra to support a gas grid for larger consumers.

In addition, producers say the government is providing no incentive to explore for more gas near Java, given the uncertainty over what price they will be paid.

Pertamina, as guardian of the country's oil and gas resources, stands between producers and potential gas consumers and sets the price those customers will pay. "There is no free access between producer and consumer," complains one foreign oil company which has seen its gas sales plans fall through.

There are also uncertainties about how much it would cost to build a domestic gas grid. "Gas needs a champion in government," says one producer.

He adds that that plans to expand gas usage have also run into opposition from existing importers of diesel fuel. "Diesel costs around $4 per million BTU ... gas could be laid for around $3 per million BTU. But diesel importers get a $1 mark-up, and they are politically well-connected."

Generating concern: industry analysts say many private projects are not necessarily the most efficient *Paul Fowler*

Oil and gas: by Robert Corzine

Uncertainty hangs over Natuna

Questions over the gas industry's structure have eclipsed oil sector developments

The future of Natuna, the proposed multi-billion dollar natural gas project in the South China Sea, is still the main topic of conversation among government energy officials in the Indonesian oil industry.

Natuna is the largest untapped hydrocarbon resource in south-east Asia, and its development would be one of the biggest single energy projects ever undertaken. But much of Natuna's gas consists of carbon dioxide that must be separated from the valuable methane and re-injected back into the ground. Critics say that will make gas from Natuna uncompetitive with other liquified natural gas projects aimed at the Asian market.

The big problem, say oil equipment contractors, is that heavy machinery normally be located on land must be installed offshore and added weight on offshore platforms means higher costs.

But Indonesian officials and executives from Exxon, the largest US oil company and the main partner of Pertamina, Indonesia's state oil group, say they are confident cost-cutting efforts will succeed in making the project competitive.

The notion of having to charge LNG buyers a "premium" for Natuna gas is outdated, say project managers. "We haven't used the word 'premium' for three years," says one. "Natuna's costs must be internationally competitive if the project is to work."

The focus of the managers has shifted in recent months from defining the initial phase of the development to project execution. That means more detailed discussions with the contractors that will bear much of the burden for ensuring that costs are contained.

Promoters say the project is gaining momentum even though no buyers have yet come forward. A contract for a conceptual engineering study will soon be awarded, "with or without any buyers lined up to take Natuna gas", says G.A.S. Nayoan, the Pertamina executive in charge of the project.

He says Natuna managers have been encouraged by examples of successful cost reduction strategies in the UK and elsewhere. Project officials recently visited a number of British offshore fabrication and oil service companies to learn more about alliance contracts, under which contractors receive financial incentives to make cost savings.

Increasing attention is also being paid to ways to lower operating costs as well as capital costs, in order to lower the important "life of field costs".

But many observers still believe the Indonesian government will have to make substantial financial sacrifices to ensure that the project goes ahead. "Higher cost energy projects have succeeded if the government involved accepts a lower take," says one executive close to the project.

Mr Nayoan says the Jakarta government does require a financial return from Natuna. "The intention is that Natuna will make money for the government," he says. "But at what time? It may not be at the front end of the project."

Certainly some in the Indonesian government see the development of the gas field and nearby Natuna island as a geopolitical, rather than financial priority. The island juts into the South China Sea, scene of series of confrontations in recent years between China and a number of other Asean governments. Some officials even raise the spectre of a resurgent Japan as justification for Natuna's urgent development. They see an eventual lifting of Tokyo's constitutional ban on the use of military forces operating outside of Japan as a further reason to bolster Indonesia's presence in the South China Sea.

Another, non-financial argument used by promoters of the project is that it will lead to a large-scale transfer of technology to Indonesia.

But the big uncertainty about Natuna is whether demand for its gas will materialise in the early part of the next decade. The question industry executives are asking is whether Japanese demand will be sufficient to justify a 2002-2003 start-up date for Natuna, or whether it will be pushed back towards the end of the next decade. Similar uncertainty surrounds demand from power generators in Thailand, another potential market which could be linked to Natuna by pipeline. "I have no doubt that Natuna will eventually be developed," says an executive from a rival oil company. "The question is when."

Other international companies are putting forth alternatives they say will meet demand in the early part of the next decade, and that would enable Indonesia to retain its ranking as the world's leading LNG exporter. These range from adding a ninth train to the existing LNG plant at Bontang on the east Kalimantan coast, to constructing a new LNG plant on Irian Jaya to exploit the big Wiriagar Deep gas reservoir discovered by Arco, the Los Angeles based US company.

Mr Nayoan dismisses suggestions that such projects will undermine Natuna. Asked, for example, whether Indonesia could justify two greenfield LNG projects, he says simply: "Why not?"

The debate over the structure of Indonesia's gas industry has eclipsed developments in the oil industry. Oil is still the country's primary energy source, and it remains an important contributor to government revenues and export earnings.

Pertamina, the state oil company, says proven reserves in 1995 amounted to 9.5bn barrels, while total oil resources might be as much as 66bn barrels. Production capacity this year is about 1.6m barrels a day. But buoyant domestic demand means oil exports are falling, and some industry executives predict that Indonesia could become a net oil importer by 2000, a forecast government officials generally dispute.

Faisal Abda'oe, Pertamina's chief executive, believes there is scope for further large discoveries in spite of the fact that much of Sumatra and Java, where the country's most prolific oil fields are situated, have been extensively studied.

He notes that only 36 out of 60 sedimentary basins in Indonesia have been explored. But international oil company executives say much of the unexplored acreage is in remote eastern Indonesia, where operating costs are high.

Individual wells in eastern Indonesia can have exploration costs of $15m-$40m because of the lack of infrastructure and shore support facilities in the area. "It can take three weeks for an ocean-going barge just to get the equipment out there," says one executive.

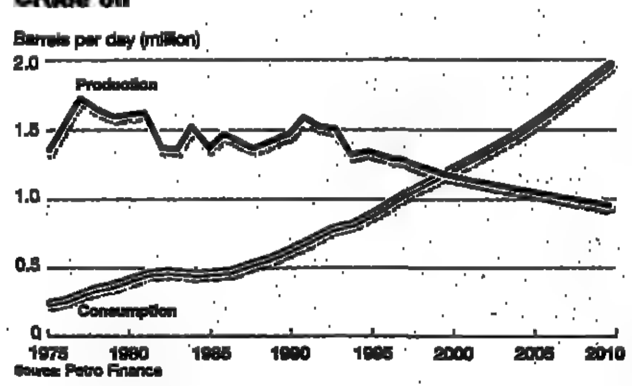
Many international companies say the government could offer greater incentives to tap the many small, marginal fields known to exist around producing reservoirs. But executives say they are not optimistic about early progress, given the slow speed at which most proposals pass through government bureaucracy.

"There will be a crisis one of these days, when production falls and export earnings drop. Then maybe they will act," says one Jakarta-based western executive.

Frustration with the present system is shared by some Indonesians. Dr Subroto, a former energy minister and secretary general of the Oganisation of Petroleum Exporting Countries, says the government "needs to be more bold, and do more to push out the point at which we become a net importer".

He says competition for international investment in oil projects is now so keen that competing countries regularly adjust their fiscal and regulatory regimes. "The government here has to adjust the rules continuously, and not just say we did so last year," he says.

Crude oil



Source: Petro Finance

CASE STUDY **Kondur Petroleum**

In the same boat

Being Indonesian does not give oil companies a much easier ride than foreign operators

Foreign oil companies operating in Indonesia have for many years complained of the difficulty in gaining access to the ministers and officials who can make decisions affecting their projects. But can a private Indonesian oil company do any better?

Kondur Petroleum, a company connected to the Bakrie Brothers industrial and commercial conglomerate, last year took over the Indonesian oil interests of Lasmo, the UK explorer, and installed an Indonesian management team.

Since then it has boosted oil production at the group by a 1,000 barrels a day to 19,000 bpd. However, senior managers say that its achievements so far have had little to do with any special treatment by the authorities in Jakarta.

"Sometimes being Indonesian can even work against us," says M. Suluhuddin Noor, Kondur's general manager.

But being Indonesian can be a definite advantage during the course of negotiations with government or Pertamina officials.

"We know when not to push them to the wall," explains Mr Noor. "And we also know the right time to drag them to the negotiating table."

Nor does Kondur enjoy any extra leeway when it comes to rationalisation, a task which many foreign companies operating in the country say is difficult, given Indonesia's strict labour laws.

"As far as employees are concerned, we are in a period of negative growth," says Rennier Latief, Kondur's chief executive. "But we can't just cut employees."

Kondur has so far adopted a deliberately low-key approach to business. Its focus since last year has been placed on encouraging the group's 500 or so employees, many of whom were demoralised as a result of a long period of inactivity towards the end of Lasmo's ownership.

> Kondur has been trying to cut operating costs in an uncertain price environment

"People just sat around with nothing to do," says Mr Latief.

In addition, Kondur, in common with most international exploration and production companies, has been busy trying to cut operating costs in an uncertain oil price environment.

But in coming years the pace at Kondur is likely to quicken, say the two executives. "If we grow, we will grow fast," says Mr Latief.

The company has already set an ambitious goal for itself of becoming a fully integrated oil organisation once the Indonesian government has followed through on its promise to liberalise the downstream sector.

But unlike some foreign companies, which rushed to secure permits for the building of refineries in order to persuade government officials of their seriousness, Kondur is content to wait for the right time to make its moves.

"We don't want to hold permits and do nothing with them," says Mr Noor.

But are other private Indonesian companies likely to copy Kondur's example and enter the oil industry? Neither Mr Noor nor Mr Latief expects a rush into the industry, even though there is a perception among many Indonesian businessmen that it is a particularly lucrative one.

The problem, the businessmen say, is that the capital costs are simply too high and the payback too drawn out to satisfy the ambitions of most Indonesian entrepreneurs.

Robert Corzine

■ **Tourism:** by Robert Corzine

Beyond the Bali experience

The sector is a top source of foreign exchange but many worry about mass development

To many foreigners the picture postcard view of Indonesia is one of lazy days spent on deserted palm-fringed beaches, or of adventurous treks into the deep jungles and rainforests of Kalimantan and Irian Jaya. And for those who are willing to spend the time or money needed to get to the more remote islands, that dream can still be realised relatively easily.

But in the case of Bali, the country's most popular tourist destination, that vision has fallen victim to mass development aimed at the package tour market.

The island's famous resort of Kuta beach now resembles an Asian version of Spain's Costa Del Sol, with dozens of bars, discotheques and fast food outlets lining the resort's main street, and hundreds of hawkers try to waylay tourists with dubious bargains.

For the Indonesian government, tourism promises to be a top money earner, with revenues from visitors expected to be one of the country's main sources of foreign exchange by the early part of the next decade.

It is also seen as a big employer, especially for the increasing number of educated young people who cannot find work elsewhere.

The country earned $5.9bn last year from 4.32m foreign tourists. Official estimates suggest those numbers could rise sharply over the next decade, with as many as 11m visitors spending $15bn by 2005, according to officials.

But it will take more than natural beauty and a tropical climate to turn the government's goal into a reality, say industry experts.

In recent years Indonesia has managed to attract relatively large numbers of tourists. But many of them were young western backpackers, with more time on their hands than money in their pockets.

The time and trouble of travelling between distant island groups, the sheer size of the country and its relatively undeveloped infrastructure suited their style of travel. However, the incomplete infrastructure has proved to be a big barrier to attracting more affluent but less adventurous travellers.

One government minister recently claimed that "the country's infrastructure, including telecommunications and transportation, especially in Sumatra and Java, are already appropriate for convenient travel."

But travel in Indonesia can still be daunting for many foreigners. "Jakarta is like Los Angeles without the freeways," says one foreign businessman in the capital. Exchanging stories of nightmarish traffic jams in the sprawling capital city has become a standard introduction to business conversations.

The perceived dangers on Jakarta's streets are such that many international companies bar their foreign employees from driving in the capital. And even short taxi rides in the city centre can often deteriorate into "dodgem" contests that test the driver's iron will and the passenger's patience and nerves.

> Critics of the programme question how much the local population gains

Air travel is relatively convenient, although passengers often have to make several connecting flights in order to reach some of Indonesia's more unspoilt tourist destinations. In addition, frequent users of the domestic air network report numerous flight delays or cancellations. The sight of irate tourists engaging in animated arguments with airline officials is all too common, say officials.

The absence of direct air links to the outside world is seen as one of the main barriers to the development of Lombok, the island east of Bali which is seen by the government as one of the next big tourist destinations.

The island has long been a favourite of backpackers. But in recent years, the construction of a small number of luxury hotels has attracted more affluent visitors from elsewhere in Asia, Europe and North America.

In 1988, only about 45,000 foreign tourists arrived in Nusa Tenggara Barat, the province in which Lombok is located. But in the year up to November 1995 some 161,382 tourists arrived.

At present, resorts such as those on Lombok can offer foreign tourists a distinct cost advantage over other luxury holiday destinations, with room rates three times lower than those charged at similar resorts in the US and Europe.

The island has succeeded in attracting a growing number of long distance travellers from Europe, which accounted for almost two-thirds of all arrivals in 1994. Local officials say that those numbers could rise substantially if the island had an airport capable of receiving jumbo jets, although there are those who worry that such a development could lead to over-development of the type that has occurred in parts of Bali.

Some critics of the government's tourism programme also question how much the local population actually gains from such developments. At the Sheraton hotel on Senggigi Beach, managers say they have tried to ensure that local people benefit directly from tourism.

"People from Lombok have a slight advantage in securing a job here," say hotel managers. But they concede that much of the hotel's expenditure on food and drink goes to foreign companies, especially those in Australia.

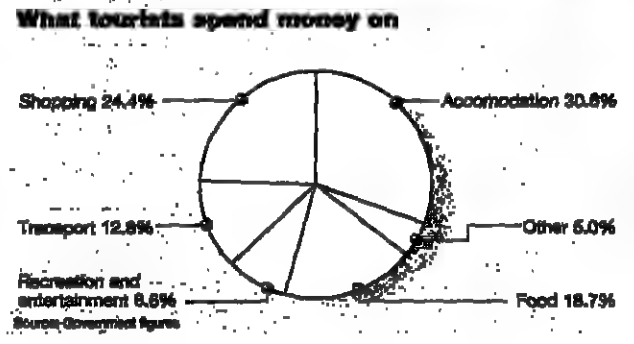
"It's a question of consistency. Indonesian suppliers just aren't geared to supply all year round." The hotel has, however, begun experimental projects with some local farmers to see whether they can supply some of its needs.

Although much attention is currently focused on the tourist potential of Lombok and the other islands of eastern Indonesia, there have also been moves to open up new resorts on the other end of the archipelago. Bintan island, near Singapore, was designated as a joint tourist area by the two governments in 1990.

The area is expected to draw as many as 1m tourists a year by the end of the decade. About 23,000 hectares on the northern part of the island have been designated for tourism development, with most projects due to be built on a 70km long stretch of white sand beach.

Top earner: statues of Hindu gods on Bali. The island has fallen victim to mass development aimed at the package tour market Ross Bray

What tourists spend money on



Source: Government figures

■ **Mining:** by Robert Corzine

Rich in reserves

The extent of the country's mineral deposits is an indication of the sector's potential

Indonesia may be banking on manufacturing as its future engine of economic growth. But intense international interest in its mining sector suggests resource-based industries will continue to expand for some years to come.

Last year the value of mineral exports rose by almost 50 per cent to $2.7bn. Over the past six years production of coal and gold has increased by more than 700 per cent.

Predictions of further sharp increases have been fuelled by rising production at existing mines and relatively high levels of exploration, with the potential of many remote areas on Irian Jaya and Kalimantan only now being realised.

The speed with which new mining projects have been organised contrasts sharply with the slow pace of approvals in the oil industry. International mining companies say the government is far more flexible when it comes to negotiating mining contracts than it is with oil.

Last year's rise in mineral exports was attributed in large part to the performance of the giant gold and copper mine run by P.T. Freeport Indonesia in Irian Jaya.

The extent and richness of its reserves symbolises the potential of Indonesia's mining sector. It has the world's single largest gold reserve of 50m ounces, and the third largest copper reserve of more than 14m tonnes. It employs some 15,000 workers and last year contributed $213m a year in taxes and royalties to the government.

Further exploration could uncover even greater riches, say Freeport executives. "Irian Jaya is one of the most attractive exploration areas left in the world for base and precious metals," says Paul Murphy, Freeport's senior executive in Indonesia.

But the Freeport mine also reflects the problems which can beset large resource projects in pristine, remote areas.

In recent years the company has found itself in the midst of civil unrest and the subject of an international environmental campaign.

The latter resulted in the termination last year of $100m in political risk insurance from the Overseas Private Investment Corporation (Opic), an independent US government agency.

A compromise settlement was reached with Opic earlier this year, under which Freeport will make annual contributions to a trust fund that will eventually reach $100m, in order to pay for the environmental remediation efforts taking place around the company's Grasberg mine.

Opic will also monitor the implementation of recommendations which are contained in a recent independent report into the company's impact on the local environment.

> A shortage of skilled workers threatens to hold back operations across the country

The study said that "until recently PTFI was slow to meet its environmental challenges, adopting a reactive rather than a pro-active response."

The company, which has also been threatened with a lawsuit in the US, concedes that it made mistakes in the past. "But they were honest mistakes," says Mr Murphy.

Many of the social problems which have beset the operation stem from the population increase that accompanies any large-scale industrial enterprise in Indonesia, even those located on the most remote islands.

In the late 1960s, when Freeport first signed an agreement with the Indonesian government, there were less than 400 people living in the area around the mine. Now there are 50,000-60,000 people in the immediate area, including thousands of migrants from Java.

The company accepts that it performed its role as the effective government of a vast area of Irian Jaya in a "top down" fashion.

"Our biggest mistake was not getting the people to participate," says Mr Murphy.

But he questions the wisdom of having a foreign company as the administrator of such a culturally and ethnically complex area. "It's not an appropriate role for foreign investors," he says.

Civil unrest and an upsurge in activity by separatist rebels in the area in recent months, including the kidnapping of foreign scientists working in the nearby Lorenz national park, has resulted in increased government presence. That, says Mr Murphy, should eventually help to improve relations with local tribal groups.

Environmental and social concerns are also evident around mines in Kalimantan, another mineral-rich island which has attracted intense international interest.

But they are not the only issues facing the industry. A shortage of skilled workers threatens to hold back mining operations across the country.

Managers at the Kaltim Prima coal mine owned by British Petroleum and CRA of Australia near the East Kalimantan coast say that many of the new recruits, including those who arrive with vocational training credentials, fall far short of the required standards.

Kaltim Prima has organised an extensive training scheme to bring recruits up to the requisite skill level. But managers complain that many newly trained workers are soon attracted by the higher wages being offered at new gold mines.

Many of the mining companies are also finding it increasingly hard to recruit accountants and other professional staff to work at the remote sites, given the high demand for their skills in Jakarta and other commercial centres in the country.

Managers at Kaltim Prima say that the shortages of key staff have now reached a point where they may have to ask the government to allow them to recruit more expatriates in order to meet ambitious new production targets.

■ **Forestry:** by Manuela Saragosa

Feeding a giant appetite

Sustainable management is needed if the country is preserve its resources

Douglas Benton, manager of one of the forest concessions operated by the New York-listed pulp and rayon producer April, can reasonably claim to have a forest in his garden in Sumatra. He and his wife live in a clearing in the concession overseeing some 30,300 hectares of forested land which will eventually be converted to tree plantations to feed April's Riaupulp mill.

Forested land around his house, however, will be left intact for aesthetic reasons. As such it is set to become more valuable over time; donor organisations estimate 1m hectares of forested land are being irretrievably lost in Indonesia every year.

Few, however, would advocate total conservation. Forest products have played an essential role in fuelling Indonesia's economic growth. But in its most recent report, the World Bank warns that without sustainable forest management, Indonesia's "volume of forest-based exports will begin to decline sharply around the end of the century".

Plywood is still Indonesia's largest non-oil foreign exchange earner. Indonesia has installed capacity of about 11m cubic metres a year. Chandra Lienandjaja, analyst at brokers ING Barings in Jakarta, expects Indonesia's installed pulp capacity to rise to between 5m and 6m tonnes by the year 2000 from 2.8m tonnes currently, enough to make Indonesia the world's largest producer and exporter.

This has raised concerns among some analysts of an industry-wide shortage of raw materials as demand for logs starts to outstrip sustainable supplies.

For some investors, this will raise ethical issues. For others, the concern will be whether deforestation will result in higher log prices, say analysts Widyaka Nusapati and William Keeling, Kleinwort Benson representatives in Jakarta.

However, the investment needed to set up a pulp mill – in April's case its $1.3bn Riaupulp mill – makes it an industry unlikely to attract fly-by-night operators.

"People have to think long-term in the pulp industry. They have to think how are we going to feed this monstrous appetite for the next 30 or 40 years.

And because the wood yield per hectare of a plantation can be 80 times what you would get from a natural forest, you need fewer hectares," says Dr Neil Byron, assistant director at the Centre for International Forestry Research, headquartered in Indonesia.

But there is concern that some pulp producers lack the scientific knowledge to ensure sustainability of their forest resources and will be forced to log outside their concessions to ensure constant supplies for their mills.

The plywood industry has not set an encouraging precedent. Plywood mills can be easily dismantled and moved and the industry's planning horizon does not extend to more than eight years, a time frame which does not accommodate the long growing cycles of most tropical hardwoods trees.

Kleinwort Benson's representatives in Jakarta say Barito Pacific, Indonesia's largest plywood producer, has had to increase the number of logs it buys from outside its concessions while cutting its own capacity utilisation to just 65 per cent. The company is unable to source enough timber to feed its mills despite owning forest concessions equivalent to the size of Switzerland.

How a company plans to feed its mills will become an increasingly important criterion in securing investor confidence. James Cikaluik, general manager of April's Riaupulp mill which is set to increase its capacity to 2m tonnes a year by the year 2000 from the current 750,000 tonnes, says that by 2002 the company's plantation and reforestation programs will supply all of the mill's current fibre needs.

The company works with overseas researchers, local graduates with forestry or scientific backgrounds and technicians researching ways of increasing yield of wood per hectare. And with the number of hectares the government allocates for forest concessions diminishing annually, sustainable management of existing concessions will become even more important.

Apkindo, the country's plywood association controlled by the self-styled timber tycoon and close associate of President Suharto, Bob Hasan, estimates Indonesia has 143m ha of forested land left. Ministry of forestry figures put the number at 109m ha of which about 35m to 37m ha have been earmarked as conversion forest – that is for other land uses – and about 49m ha as protected forest.

But these figures are widely disputed by non-governmental organisations who argue that there are only 90m hectares of forested land left. One forestry expert remembers standing in the middle of a Kalimantan rice field which the ministry of forestry had recorded as protected forest. "The nearest tree was about 20km away," he says. "Who knows how much protected and conversion forest is already gone?"

Conventional wisdom has it that forest settlers are the innocent victims of deforestation. But the facts are more complicated. Shifting agriculture, where settlers move within the forest slashing and burning trees to make way for crops, is one of the main causes of deforestation in Indonesia.

Concessions need roads to transport logs which in turn invite farmers and settlers to move to new areas of the forest bringing the problem of shifting agriculture to places where it did not exist before.

Concessions are often awarded with no consideration for the settlers already living in the area. "Without a legal claim to the land, local communities have a powerful incentive to deforest and use the site for other purposes," the World Bank writes in its most recent report.

Illegal logging remains one of the biggest threats to the country's forests. The World Bank estimates sustainable yield from forests in Indonesia is about 22m cubic metres a year but the rate of felling is estimated by independent sources to be above 40m cubic metres a year. This suggests that the ministry of forestry is failing to enforce its annual allowable cut.

Over the past few years, the ministry has started revoking a concession licences if there is evidence that a company is felling more trees than permitted.

But the sector is highly politicised. As a result, although the minister of forestry is credited for taking steps to tackle the issue, enforcement has been arbitrary. "It's not a question of rewriting the forestry manuals," says one forestry expert. "It's just a question of implementing the existing rules."

Nightlife and the social divide: by Manuela Saragosa

New wealth paints the town red

Upmarket clubs all over the capital are evidence of a growing class of nouveau riche

With its population of 10m, tangled traffic jams, seas of steel, glass and concrete towering over sprawling shanty towns, Jakarta is Indonesia's "Ibu Kota" (mother city) nurturing some of Asia's most ostentatiously wealthy and neglecting some of Indonesia's most miserably poor.

It is where satay sellers tirelessly push their mobile kitchens around the residential streets dodging air conditioned sedans and where lepers beg near luxury shopping malls and street children jangling tambourines at red lights peer into cars windows hoping for spare change.

Wealth and poverty, east and west wrestle each other daily on Jakarta's streets and the city's nightlife reflects this.

Lower income groups go to "dangdut" bars featuring bands playing a hybrid of Indian popular music, country and western, and Malay percussions. This is the music of the masses, a chance for Indonesians to hear their strife, love and heartache expressed in weepy lyrics.

There is the upmarket "dangdut" – found in some of Jakarta's more exclusive hotels – and the seedier, more popular variety in neon-lit bars where power cuts are part of the package if not the entertainment. Female singers clad in hip-hugging lycra and male vocalists in white suits and black ties rarely fail to entice people on to the dance floor.

But the cheap beer at some "dangdut" bars is still too expensive for those Indonesians forced to eke out an existence on a minimum wage of about Rp5,100 per day. In east Jakarta, the grimy road underneath the Jatinegara train station features entertainment of another variety – "jaipong".

One side of the road is lined with makeshift stages where heavily made-up women clad in exceptionally tight traditional "kebaya" costumes of sarongs and lacy tops, sway to "dangdut" tunes. On the other side of the road, hundreds of men sit and gawk, sipping beer in the smoke of burning clove cigarettes. This is the closest Indonesian culture gets to a striptease. No clothes are shed; this, after all, is the world's largest Moslem country.

After Jakarta's hundreds of mosques have finished calling the faithful to prayer, those not lured out by the sound of "dangdut", hunt the bars and nightclubs for western-style entertainment and decadence.

Jakarta is where all the big contracts are signed, decisions are made and where most of

> Jakarta is the country's first port of call for the world's latest ideas and fashions

the newly rich are settling. As such it is the country's first port of call for the world's latest ideas and fashions. Many of those who make up Indonesia's elusive, burgeoning middle class would not be seen dead in a "dangdut" bar.

Noli, a 22-year old secretary fluent in English, likes everything western, including her boyfriends. Jakarta's Hard Rock Cafe is her favourite hangout, and the louder the music the better. "I come here almost every night because I want to meet foreign guys. We meet Indonesians guys every day. I want a foreign boyfriend," she says.

Age is not an issue, but money is. Noli believes a "bule" – literally "albino" but slang for "western" – boyfriend is a ticket out of Indonesia and into the world.

More recently, Noli and her friends have discovered the Tanamur, probably the only nightspot in Jakarta where social class is irrelevant. Scantily dressed dancers gyrate to technopop and house music on a wooden catwalk above a crowded, sweaty den where government ministers' children and relatives rub shoulders with actors, diplomats, prostitutes and transvestites.

Indonesia's Moslem majority will ensure that Jakarta's sex industry is unlikely to ever match Bangkok's excesses. Meanwhile, however, massage parlours offering ambiguous services abound. And along a road only a short walk from President Suharto's residence in the exclusive downtown suburb of Menteng, peddlers sell puppies in cages by day and transvestites strut their stuff by night.

It is a scene fit for a Federico Fellini film: degradation in an exclusive neighbourhood. After 11pm, the road is choked with trucks and luxury sedans. Most come out of curiousity, a number come to buy sex. Immaculately made-up transvestites dressed in painfully high stilettos call out to passers by, jump into cars and reappear 10 minutes later when the car has circled the block.

But it is the number of upmarket, large technopop nightclubs sprouting everywhere in the capital that bear testimony to the growing class of "nouveau riche". This is where the children of Indonesia's élite congregate to pose and dance in a hedonistic cocktail of drugs and alcohol.

Islam restricts alcohol intake yet all of Jakarta's clubs sell beers and spirits. Over the past two years, drugs, in particular ecstasy pills, have become increasingly popular. Newspapers report drug busts most months and nightclubs are regularly raided by police.

The military has recently declared a war on ecstasy pills but has also had to remind its own security forces they are barred from nightclubs and brothels and moonlighting there as guards. Some 13 soldiers were arrested in raids on nightclubs in the past two months and a policeman was found dead from an overdose of ecstasy pills earlier this year. No-one, it seems, wants to miss out on the new-found wealth.

Business guide

Time

GMT + 7 hrs in West Zone (Java, Sumatra, Bali) GMT + 8 hrs in Central Zone (Kalimantan, Sulawesi, Timor) GMT + 9 hrs in East Zone (Molucca, Irian Jaya).

Climate

Tropical, uniformly hot and humid with monsoon rains from December-March and dry season from June-September. Rainfall averages between 150cm and 400cm a year. Hilly areas are cooler.
Jakarta: hottest months: April and May, 24-31°C (average daily minimum and maximum). Coldest: January and February, 23-29°C. Driest: August, 43mm average rainfall. Wettest months: January and February, 300mm average rainfall.

Entry requirements

Passport: required by all except for holders of certain documents issued by the UN or Indonesia and certain seamen. All visitors must be in possession of passports valid for at least six months with proof of onward passage, either return or through tickets.
Visa: usually required for all except EU countries, US, Canada, Argentina, Australia, Brazil, Chile, Morocco, New Zealand, Scandinavia, Venezuela and Asean passport holders. Regulations are subject to interpretation. If in doubt, obtain a visa. Special permission from the Immigration Department must be obtained for travel to Irian Jaya or Timor.
Prohibited entry: documents, including passports, issued by Israel are not acceptable.

Currency

The maximum Indonesian currency which may be imported or exported is Rp50,000 per person. Exchange rates for foreign currency are generally the same at banks and money changers. Major currencies or traveller's cheques may be exchanged at most banks, except in the provinces. It is advisable to carry rupiahs before travelling to outer provinces or minor towns.

Health precautions

Mandatory: vaccination certificates for small-pox, yellow fever or cholera if travelling from infected areas.
Advisable: cholera vaccination and anti-malarial precautions.

Hotels

International-standard hotels have air-conditioning and often business centres, where translation and secretarial services are normally available.

A 10 per cent service charge is normally added to the bill, so tipping with small change is usual. Where no service charge has been added, a tip of 5-10 per cent would be appropriate.

Credit cards are accepted at international-standard hotels, but not for domestic air fares. International car hire companies, such as Avis and Hertz, will also accept credit cards.

Car hire

Mostly chauffeur-driven, available in major towns and cities. Except for international car hire operators which accept credit cards, full payment for car hire is made up-front.

City transport

Taxis: taxis can be obtained at hotels, airports and railway stations. From Soekarno-Hatta airport to Jakarta city, taxis add a surcharge of Rp2,300 and the toll road of Rp4,000. There are metered taxis only in Jakarta, Surabaya, Bandung, Solo, Semarang and Yogyakarta, but it may be necessary to insist on the use of the meter. Fares are reasonable. Taxis may also be hired by the hour, which is less expensive for longer journeys.

In Jakarta it can be difficult to hail taxis, so engage one at the hotel and retain it until returning. A 10 per cent tip is usual. There are also minicabs for two passengers, the bemo (small bus) which plies regular routes, and the becak, all of which need advance bargaining to come to a mutually accepted fare.
Rail: Citra Lamtorogung Persada, a company owned by the president's eldest daughter, won the contract to build a $800m overland light elevated railway system in southern Jakarta, construction to start in 1996.
Underground: Work on a 14km underground transport system in Jakarta starts in 1997 and will be operational by 2000.

Public holidays

Fixed dates: 1 January (New Year), 17 August (National Day), 25 December (Christmas).
Variable dates: Nyepi (Balinese New Year), Good Friday, Miraj, Ascension Day (Jesus Christ), Waisak, Eid al-Fitr (end of Ramadan), Eid al-Adha, Islamic New Year, Maulud. Dates of Moslem festivals may vary, as they depend on the lunar calendar.

Working hours

Business: (Mon-Fri) 0830-1600 (Sat) 0830-1230. Fri: it is difficult to make an appointment after 1100 although businessmen sometimes meet in the late afternoon and early evening.
Government: (Mon-Thu) 0800-1500 (Fri) 0800-1130 (Sat) 0800-1400.
Banking: (Mon-Fri) 0800-1400 (Sat) 0800-1100. Hotel banks may remain open longer.
Shops: 0800/1000-2100/2200 (some close at 1730).

Social customs

Indonesia is predominantly Moslem and alcohol is not considered essential to social intercourse. Handshaking is customary but use of the left hand to give or receive is taboo. Crooking a finger to call someone is considered impolite. Do not start to consume food or drink until invited by the host to do so.

Pork is forbidden for the Moslem population and beef for the Balinese Hindus.

Pribumi – anything indigenous to Indonesia – occurs in business with reference to local participation, capital investment or loans.

Halter tops and shorts are frowned upon except in sports facilities or on the beach. Observe proper decorum in places of worship.

KEY FACTS

Official title	Republik Indonesia (Republic of Indonesia)
Head of state	President General Suharto
Ruling party	Golongan Karya (Golkar)
Official language	Bahasa Indonesia
Currency	Rupiah
Exchange rate	Rp2,249:1 (1995, average)
	Rp2,331:1 (May 24, 1996)
Area	1,919,443 sq km (17,508 islands)
Population	196.6m (1995)
GDP per head	1,026 (1995)
GDP growth	7.1% per year (1991-95), 8.1% (1995)
Inflation	8.9% (1991-95), 9.4% (1995)

Major exports (1994)	% of total
Manufactures	64.2
Oil and gas products	24.2
Raw materials	7.0
Food, drink, tobacco	4.5

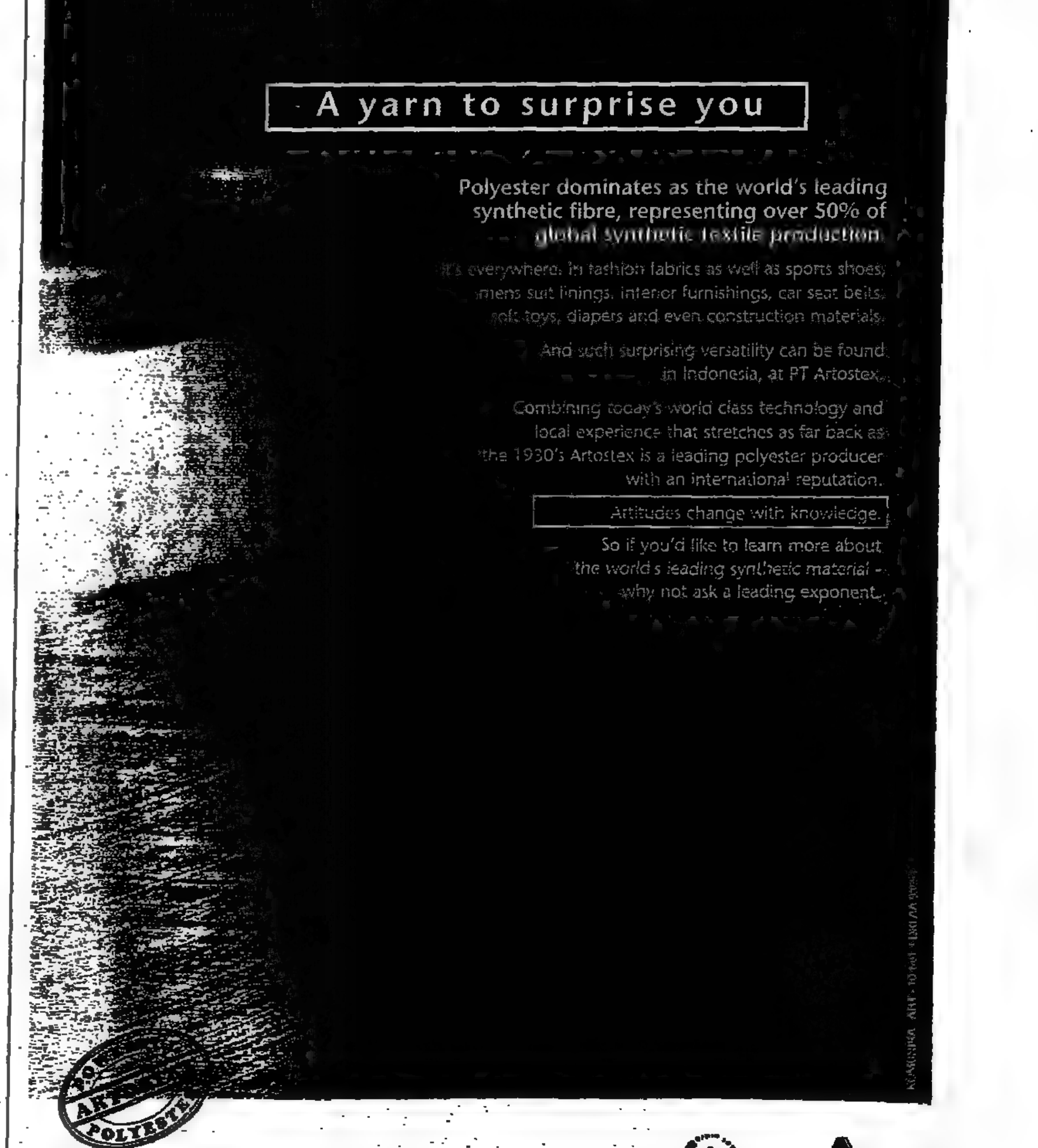
Major imports (1994)	% of total
Machinery, transport, equipment	42.1
Other manufactures	15.3
Chemicals	15.2
Raw materials	8.5

Leading markets (1994)	% of total
Japan	27.3
US	14.6
European Union	14.5
Asean	14.2

Oil reserves	5.8bn barrels (end-1994)
Trade balance	$7.8bn (1994)
Foreign debt	$100bn (1994)*
Aid flows	$5.2bn (1994-95)

* estimated figure

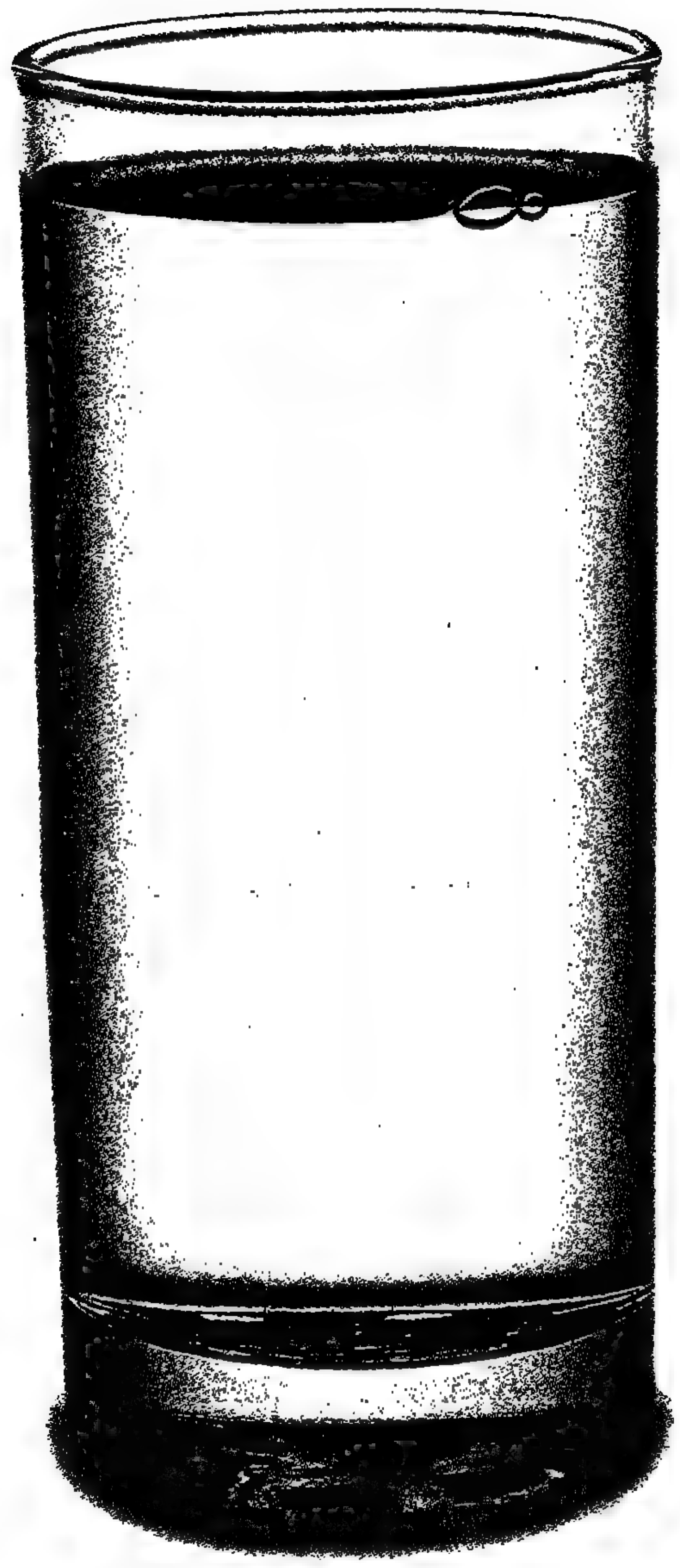
Sources: EIU, World of Information



هكذا من الاصل

SECOND-HAND TOBACCO SMOKE IN PERSPECTIVE

What risks do you take?



Almost every day, it seems that one thing or another has been discovered to be some kind of health risk.

In one scientific study, even drinking ordinary chlorinated water was linked to cancer.

But as common sense suggests (and scientists confirm) not everything described statistically as a risk is a meaningful risk.

For example, lots of people have been persuaded that second-hand tobacco smoke is harmful.

Not surprising, perhaps.

After all, we recognise that smoking itself is a risk factor for certain human diseases and that some people find second-hand tobacco smoke unappealing and unpleasant.

But what about second-hand tobacco smoke? Is it really a meaningful health risk to people who've chosen not to smoke?

Not, we think, if you look at the evidence.

The United States Environmental Protection Agency recently conducted a major review of studies on the risks of second-hand tobacco smoke to non-smokers. These studies typically involve non-smokers living with smokers over a long period, such as 20 years.

And this review put the risk of lung cancer from second-hand tobacco smoke at a level well below the risk reported by other studies for many everyday items and activities.

And below, in fact, the risk to health that one other study reported for drinking chlorinated water.

As the table below shows, many everyday activities have been statistically associated at one time or another with apparent risks to health.

But reputable scientists say that weak associations aren't necessarily meaningful.

So there's no big campaign to persuade you to stop drinking chlorinated water.

Nor is there any sound justification for a campaign against second-hand tobacco smoke.

If you'd like to decide for yourself, please write to us at Philip Morris Europe S.A., c/o P.O. Box 107, 1000 AC Amsterdam, The Netherlands or fax us on 00 31 20 671 98 89 or access us on: http://pminfo.yrams.nl

We'll send you the evidence about second-hand smoke.

We believe you'll find the case convincing.

Associated with additional risk

Weak association with risk

Associated with reduced risk

Everyday Activities	Reported Relative Risk*	Reported Health Effect	Scientific Study Reference
Diet highest in saturated fat	6.14	Lung cancer	Journal of the National Cancer Institute, Vol. 85, p.1906 (1993)
Non-vegetarian v vegetarian diet	3.08	Heart disease	American Journal of Clinical Nutrition, Vol. 31, p. S191 (1978)
Frequently cooking with rapeseed oil	2.80	Lung cancer	International Journal of Cancer, Vol. 40, p. 604 (1987)
Drinking 1-2 glasses of whole milk per day	1.62	Lung cancer	International Journal of Cancer, Vol. 43, p. 608 (1989)
Eating one biscuit a day	1.49	Heart disease	Lancet, Vol. 341, p. 581 (1993)
Drinking chlorinated water	1.38	Rectal cancer	American Journal of Public Health, Vol. 82, p. 955 (1992)
Eating pepper frequently	1.30	Mortality	American Journal of Epidemiology, Vol. 119, p. 775 (1984)
Exposure to second-hand tobacco smoke	1.19	Lung cancer	U.S. Environmental Protection Agency (1992)
High vegetable diet	0.37	Lung cancer	International Journal of Epidemiology, Vol. 25, Suppl. 1, p. 32 (1996)
High fruit diet	0.31	Lung cancer	American Journal of Epidemiology, Vol. 133, p. 683 (1991)

*Relative risk measures how much consuming, or being exposed to something, raises or lowers risk. According to the US National Cancer Institute... "In epidemiologic research, relative risks of less than 2 are considered small and are usually difficult to interpret. Such increases may be due to chance, statistical bias, or effects of confounding factors that are sometimes not evident."

Philip Morris Europe S.A.

Second-hand tobacco smoke. Let's keep a sense of perspective.

PM sets date for end to beef export curbs

By Robert Peston in London and Neil Buckley in Brussels

The UK will be in a position to see the lifting of almost all elements in the European Union's ban on beef exports by November, the prime minister pledged yesterday.

In what was described last night by one of his ministers as a "massive hostage to fortune", Mr John Major said that the government would have completed by then the most important measures to eradicate BSE or "mad cow disease".

The European Commission reactly cautiously to the prime minister's timetable. A spokesman for the agriculture commissioner, Mr Franz Fischler, said the commission has "never wanted to give dates . . . even theoretically".

He pointed out that even when the UK believed it had met conditions laid down in the framework plan agreed by EU heads over the weekend, a relaxation of the ban would still have to be approved by all the different EU committees concerned with beef.

Earlier the prime minister met a mixed reaction from his own MPs to his statement in the House of Commons on the ending of his policy of disrupting EU business, following agreement on the framework.

The leading Eurosceptic and former minister, Mr John Redwood, urged him to employ "equally persuasive" tactics to urge EU member states to reform of the European Court of Justice and Common Fisheries Policy.

However, a pro-European backbencher, Mr George Walden, said the war against the EU meant that "we have lost prestige, we have lost money and we have lost umpteen thousand more cows".

In his statement, the prime minister laid down three target dates for meeting the necessary conditions laid down in the framework plan for the eradication of BSE.

By October, he expected the UK to be able to export cows from herds certified as free from BSE and animals "born after a specified date", thought to be mid-July. This would give the UK access to a market worth £100m ($153.00m) a year.

At around the same time, he expected the European Commission to propose a lifting of the embargo on embryo sales.

The following month the UK "should have met the conditions necessary "for a decision to lift the ban on . . . meat from all animals under 30 months", opening the way for "exports worth some £530m a year".

The Daily Mirror, the second biggest selling daily newspaper in Britain, harked back to the second world war yesterday in looking ahead to tomorrow's semi-final between England and Germany in the Euro 96 soccer tournament. The Editor's column parodied the 1939 statement with which prime minister Neville Chamberlain announced that Britain and Germany were at war.

Banned trader 'unfairly blamed'

By John Gapper, Banking Editor

Mr Ron Baker, former head of derivatives trading at Barings, yesterday accused fellow executives at the merchant bank that collapsed last year of "knowingly or unknowingly conspiring" with Mr Nick Leeson to cover up his fraud.

Mr Baker claimed he had been unfairly blamed for failing to prevent Mr Leeson's £830m fraud, and accused Mr James Bax, the former head of south east Asia, of knowing that Mr Leeson had forged a document a month before the collapse.

Mr Baker, who is appealing against a three-year ban from the Securities and Futures Authority on working in the City of London, is the first Barings executive to make such serious public accusations against his former colleagues.

He told the House of Commons Treasury committee that the Barings manager most directly in charge of Mr Leeson until six weeks before the collapse was Mr Mike Killian, the former head of futures and options sales in Tokyo, who is employed by ING Barings.

Mr Baker said that Mr Leeson reported through Mr Killian to Mr Peter Norris, former chief executive. He said that futures and options sales "had descended into organisational chaos" under Mr Killian before he took over in January 1995.

He also said that Mr Bax must have known that Mr Leeson had forged his signature on a false authorisation for a £50m trade in January. This forgery enabled Mr Leeson to carry on hiding his losses for a further month before the collapse.

Dutch asked to assist cattle cull

By George Parker, Political Correspondent

Britain is looking at the possibility of exporting thousands of cattle carcasses to rendering plants elsewhere in Europe, as part of its drive to remove the backlog of animals due for slaughter under the BSE cull.

Mr John Major, the *prime* minister, acknowledged yesterday that the removal of the backlog of 200,000 condemned cattle aged over 30 months would have to be cleared before the lifting of the beef export ban could begin.

Yesterday senior Ministry of Agriculture officials said the backlog was being caused primarily by a shortage of rendering capacity in the UK, and that Dutch companies had been approached to help tackle the problem.

"There might have to be some amendments to the EU's export ban because shipping carcasses to Holland might be seen by some as a resumption of the beef trade," the official said.

The shortage of UK rendering capacity means slaughtered cattle are being stored in cold stores. To compound matters, the rendered material no longer has an end use because of the ban on the use of such products in animal feed.

Rendered material is currently being stored in army depots, pending an expected deal with power generators, who are testing whether cattle remains can be used as a fuel.

Government in showdown over asylum benefit rule

By James Blitz, Political Correspondent

The government was heading for for a tense showdown with the opposition Labour party last night over plans to legislate restrictions on benefit payments to asylum seekers.

Mr Peter Lilley, social security secretary, said yesterday the government would introduce amendments to its Asylum bill in the House of Lords, the unelected upper house of Parliament, next Monday.

The move follows a ruling by the Court of Appeal last week that such restrictions on benefit payments, introduced four months ago, were illegal under existing law.

His new proposal means that the government will try overcome the Court of Appeal's ruling by writing the legislation into the text of the Asylum bill itself. Labour yesterday claimed the government was embarking on a risky strategy, and that opposition lords would be out in force to try to defeat the measure.

The government proposals would withdraw benefits from people who fail to apply for asylum at the moment they first enter the country. They are expected to reduce spending on social security by some £300m ($459m) per year.

One of the Court of Appeal judges said last week that the policy would leave some asylum seekers "so destitute that to my mind no civilised nation can tolerate it".

Mr Lilley told MPs in the House of Commons yesterday: "We are determined that this judgment will not provide a blank cheque for bogus asylum seekers."

Mr Chris Smith, shadow social security secretary, protested that forcing through a change "to get around an inconvenient decision in the courts" showed "the incompetence of this administration".

Mr Lilley said that asylum seekers who were deprived of benefit and were later successful in their claim would have their payments backdated.

Figures released last month showed that the number of asylum seekers had fallen by 30 per cent since the benefit cuts were formally instituted in February. In 1995 there were 44,000 applications for asylum.

UK NEWS DIGEST

Medical skills to be promoted

London First, a promotion group backed by most of the capital's biggest companies, local authorities and by the Department of Trade and Industry, is planning a campaign to sell London as Europe's centre for medical excellence. The publicity is intended to attract inward investment in pharmaceuticals and medical equipment, students for London's medical schools and private patients for London's hospitals.

London First will have spent £200,000 ($306,000) on setting up the scheme by September and is seeking up to £300,000 a year to keep it running. Mr John Cox, director of London First, said that London needed to compete with Paris, which was also promoting itself as a centre for medical excellence. He said that the main markets for the campaign would be the US, Europe, the Middle East and east Asia. *Daniel Green*

US pharmaceutical investment

A US pharmaceutical research company yesterday announced plans to create up to 300 jobs in Scotland. North Carolina-based Quintiles intends to established a clinical data management service plant at Bathgate, West Lothian.

Around half of the jobs will be highly skilled posts including chemists, pharmacologists and statisticans who will collate and analyse results from testing around the world, said the company. The project was won by the UK government's investment agency, Locate in Scotland, in the face of intense competition from other countries. The company already employs 263 Scottish staff near Edinburgh, the Scottish capital, and has a further three sites in England. *PA News*

Second mail strike looms

Talks over the mail dispute continued last night, but hopes of averting a second national strike on Thursday were not high. The CWU postal workers' union was discussing pay and conditions with Royal Mail managers, including the contentious issue of team working. Up to 134,000 postmen and women staged their first strike in almost a decade last Friday, crippling the mail service. They are due to walk out again for 24 hours from noon on Thursday. In the House of Commons yesterday, Mr Michael Heseltine, the deputy prime minister, signalled his wish to see the Post Office's monopoly on letter delivery broken if strike action continued. According to senior government ministers, Mr Heseltine has put pressure on Mr Ian Lang, trade and industry secretary, to allow private companies to handle letters which cost less than £1 ($1.53) to deliver. *Andrew Bolger and James Harding*

River Thames plans reviewed

The first planning framework for the Thames in London has been published by the government in an attempt to improve public access to the river and improve the quality of property development along its banks. The draft guidelines lay down criteria for riverside property developments and aim to encourage the use of the river as a transport artery.

The central section of the river through London from Hampton Court to the Thames Barrier (below) has been designated as a special planning area. Proposed developments in this area

will have to be in keeping with London's status as a "world city". The government is also keen to encourage passenger and freight traffic on the Thames and increase the amount of waste which is transported by river rather than road.

Simon London, Property Correspondent

Editorial comment, Page 15

Benefit gamble proposed

A Labour government would let unemployed people take a gamble with their benefit payouts, allowing them to draw a large proportion of their future entitlements in advance and spend the money on schemes that help them find a job. In a new effort to create a more "flexible" and "personalised" system of social security in the UK, the opposition party yesterday said it would let dole claimants receive up to six months of future benefit entitlements in one go – and then use the money on further education or training.

James Blitz, Westminster

Bottle of Scotch fetches $15,300

A Scottish hotelier threw a small lunch party yesterday to welcome a £10,000 ($15,300) bottle of Scotch whisky into his bar and to thank his accountant for letting him buy it. "It's an investment," said Mr David Birrell, owner of The Cuilfail Hotel on Loch Melfort, 25km south of Oban. He hopes will attract tourists from around the world but he said he will not let them drink it. The bottle of 60-year-old Macallan malt is believed to be one of the oldest and most expensive whiskies bottled. *Roderick Oram, Consumer Industries Editor*

Army prepares to fight on 'digital' battlefield

Competition for vehicle contracts worth $4.6bn will determine which manufacturers stay in business

By Bernard Gray, Defence Correspondent

Army commanders always complain they are the poor relations in the services' equipment programme. Billions may be spent on nuclear submarines and aircraft carriers for the Royal Navy, while the Royal Air Force gets billions more for its fighters. But the British army struggles along with equipment which costs peanuts by comparison.

That picture is changing. The future battlefield will be so frenetic that soldiers will need very high technology equipment simply to survive. Moves are afoot to map a "digital battlefield", with commanders using computer-generated pictures.

For this a new battlefield communications system is being developed, and aircraft which can map ground movements from radar or heat images are being studied.

Troops will have to be highly mobile: the Ministry of Defence has placed an order for more than 400 of the new 65-tonne Vickers Challenger II tanks, and the Warrior armoured fighting vehicle, made by GKN, is already in service with the army. Soon the army will have US-designed Apache attack helicopters, being built by GKN-Westland.

To complement this firepower, the army needs more command, communications and transport vehicles to ferry troops around the battlefield, and a new generation of scout patrol vehicles.

In total, the ministry is likely to need more than 2,500 such vehicles over the next 15 years at a cost of about £3bn ($4.6bn). As well as creating a new style of army, the competition to supply them will determine which of Britain's armoured vehicle manufacturers stay in business.

Three basic types of vehicle will be needed. The cheapest and least sophisticated is the "battlefield taxi", which Britain recently agreed to develop with France and Germany. This lightly-armoured troop transporter will be used in the rear areas of the battlefield. Britain will need about 1,000 of these vehicles at a cost of around £1bn. France and Germany have similar requirements, making the total programme worth around £3bn.

In spite of agreeing to a joint programme for these light Multi Role Armoured Vehicles (MRAVs), some difficulties remain. Britain and Germany want a competition to decide which company should build the vehicles while France wants to award its share of the contract to its armour maker Giat.

Two Anglo-German consortiums are vying for the order. Vickers and Alvis of the UK have teamed up with Thyssen of Germany in one group, while GKN has allied itself with Krauss Maffei, MaK/Rheinmetall and Wegmann in another.

Originally it was intended that whichever consortium won would then team with Giat for the final contract. But if the two teams develop rival designs and a winner is selected, neither Giat nor the French government will have much say in the design. The alternative of allowing Giat representatives on each team is being opposed by manufacturers because of commercial secrecy, and the issue is some way from being resolved. British ministers hope that the alliances formed in this competition will help arms makers consolidate by producing international joint ventures or even single companies to rationalise the patchwork of armoured vehicle makers in Europe. The other two types of vehicle are not nearly so helpful for such rationalisation.

The second type of battlefield taxi needed for the British army is a more heavily armoured vehicle which would fight in the thick of battle.

Britain wants about 1,000 of these, which are also likely to cost about £1bn, but neither France nor Germany has a requirement for such a vehicle. The most likely course is for it to be based on a version of the Warrior.

But this split could prevent rationalisation. If, for example, the Vickers-Thyssen consortium won the light vehicle bid, and GKN was awarded a contract to update its Warrior, the UK would have as many vehicle makers as at present.

The situation is complicated further by the third vehicle. This is a scout-reconnaissance car which will be packed with electronics and sensors. These Tracer vehicles will be much more expensive than the battlefield taxis, with the 400-odd which the UK wants costing about £1bn making the programme vulnerable to Treasury spending cuts.

Three consortiums have done preliminary work on Tracer combining vehicle makers with electronics experts, Vickers, Shorts of Belfast and Texas Instruments; GKN and GEC; and British Aerospace and Alvis.

Again, neither France nor Germany currently has a need for such a vehicle, although Germany is beginning to become interested. The US, however, will be developing a similar vehicle, and discussions have started over whether the UK and US programmes might be merged.

If they were, the UK would be co-operating with the mainland continent on one programme, the US on another and going alone on a third. It represents a rationalisation of sorts but still leaves Europe's armour manufacturers facing a bumpy track ahead.

State properties to be transferred to private sector

By Simon London, Property Correspondent

The government is planning to transfer more than 800 Department of Social Security office buildings to the private sector in a contract worth up to £4bn ($6.1bn) under the Private Finance Initiative (PFI).

Following an internal review, ministers decided to contract out as many property functions as possible under the PFI.

"The DSS has decided that it does not want to be in the property businesses," said one official. The decision to adopt a "big bang" approach was taken following exploratory discussions with property investors in the UK, US and Hong Kong.

The annual rent roll of the DSS portfolio is about £170m, equivalent to the rental income of the UK's fourth largest property company.

The scheme will be the largest ever property-related project under the PFI. It will also provide the stiffest test for PFI bidding procedures, which have been criticised by private sector companies for long delays and high costs.

The DSS last week selected Amec, the construction and engineering group, as its preferred supplier to provide new offices for 13,000 Contributions Agency staff in the north-east of England.

The latest project includes virtually all the department's remaining office premises, most of which are occupied by the Benefits Agency, accounting for more than 15 per cent of all government office premises in the UK.

The successful bidder for the DSS estate would assume responsibility for managing the properties – including services such as maintenance and cleaning – and co-ordinating a capital investment programme aimed at upgrading the quality of offices.

The full 25-year contract, including facilities management and capital spending, is estimated to have a net present value of between £3bn and £4bn.

In April, the DSS took over responsibility for managing its estate from Property Holdings, the government agency which looked after all government office properties.

Property Holdings was replaced by Property Advisers to the Civil Estate (Pace), which provides property advice to departments to ensure that the government is receiving value for money.

It is unclear how Pace would perform this function if the DSS and other departments transfered their office portfolios to the private sector.

CONTRACTS & TENDERS

No VAT refund for share sale

EUROPEAN COURT

The sale of shares and other securities by a charitable trust to fund charitable activities, was not a transaction capable of falling within the Sixth European VAT Directive and therefore was not capable of being the subject of a VAT refund, the European Court of Justice has ruled.

The case arose in the context of a sale of shares and other securities by Wellcome Trust Ltd, which was the sole trustee for the Wellcome Foundation Ltd, the pharmaceutical company. In 1985, the foundation's shares were exchanged for shares in a new holding company, Wellcome plc.

A number of domestic court orders were made, permitting the sale of various tranches of shares, subject to the condition that the trust retained a given percentage of the total shareholding.

The present matter arose out of a sale of shares which took place in 1992. As the sale was considered too big to be carried out by public subscription, the shares were offered through a form of auction, whereby potential investors were given the opportunity to submit tenders during a given period, at the end of which, the size and price of the offer were fixed in the light of demand.

The offer involved considerable expense in the form of professional advice. The sale raised £2.8bn.

In reliance on the terms of the Sixth VAT Directive, the trust sought to reclaim just under £300,000 as the input tax paid on professional services expenditure incurred in the preparation of the sale of shares sold to persons outside the European Union.

Under the provisions of the directive, VAT refunds were available when a recipient of goods or services was established outside the EU.

The refund application was rejected by the Commissioners of Customs and Excise on the ground that the shares and other securities which had been sold had been held for charitable purposes and that the disposals had not been made in the course or furtherance of any business carried on by the trust, but in pursuance of the normal management of investments in order to fund charitable activities.

The trust appealed that decision to the VAT Tribunal, which referred the matter to the European Court of Justice.

The court recalled first that the Sixth VAT Directive applied VAT to the supply of goods or services within the territory of a member country by a taxable persons acting as such.

A taxable person was defined as any person who independently carried out in any place any specified economic activity, whatever the purpose or results of that activity.

Economic activities were defined as all activities of producers, traders and persons supplying services including, amongst others, professional activities.

The directive further provided that the exploitation of tangible or intangible property for the purpose of obtaining income therefrom on a continuing basis was also to be considered an economic activity.

Although the trust did not have the status of a professional dealer in securities in the UK, that did not necessarily mean that the sale of shares held by the trust could not in certain cases be treated as an economic activity within the terms of the directive.

However, the mere exercise of the right of ownership by its holder could not constitute an economic activity. Thus, the mere acquisition and holding of shares in a company did not constitute an economic activity within the terms of the directive.

Transactions in shares were capable of constituting an economic activity where they were made as part of a commercial share-dealing activity or in order to secure a direct or indirect involvement in the management of the companies in question.

However, it was clear in the present case that the trust was expressly forbidden from engaging in such activities. The trust, therefore, was to be considered on a par with private investors whose activities fell outside the scope of the directive.

C 155/94: Wellcome Trust Ltd v Commissioners of Customs & Excise, ECJ 5CH, June 20 1996.

BRICK COURT CHAMBERS, BRUSSELS

Commitment tested to limit

Nigel Page on the problems facing foreign law firms in Vietnam

By the time the US embargo on Vietnam was lifted in February 1994, economic reform (or doi moi) was already well underway. First introduced in 1986, doi moi was intended to transform the centrally planned system to a market economy.

That process is continuing today - but less rapidly than many had hoped. Vietnam has not fared well in the international press – with fears of reactionary clampdowns giving some investors cold feet.

The recent blacking out of western names in billboard advertisements along with the usual regulatory headaches, corruption and red tape, have done little to reassure onlookers, and alternative Asian investment targets have been seen as better prospects.

Latest figures show that foreign investment approvals in Vietnam for the first quarter of 1996 are around half those during the same period last year – 87 projects worth $1.2bn (£780m) were licensed by the end of April, compared with 134 projects worth $2.6bn in early 1995.

This is not good news for the 28 foreign law firms based in Vietnam. Even before the slowdown, it was questionable whether there was enough work to go round. Now some departures look inevitable.

Law firms in Vietnam are also having to contend with a much tougher practice environment, as a result of new rules introduced by the Ministry of Justice last year. Essentially designed to protect the interests of the fledgling local profession, the rules tightly control the activities of foreign firms, obliging them to convert their representative offices to branch offices – bringing them under the auspices of the ministry – and to register with the tax authorities.

Foreign lawyers are forbidden to advise on Vietnamese law, while being obliged to employ staff with a minimum five years' experience in branch offices. Vietnamese lawyers may only be employed for two years in foreign firms.

The intention is to promote links between local and foreign firms. But as many western lawyers point out, it is unlikely that multinationals will be prepared to entrust legal opinions to what remains a commercially immature local profession.

In practice, it means that Vietnamese lawyers will be used to front and sign off deals while western firms undertake most of the research and documentation.

Fourteen firms were granted branch office licences in the first batch in February - and a further eight were informed on May 18 that their branch licences would be conferred in due course.

They are White & Case, Baker & McKenzie, Deacons Graham & James, Tilleke & Gibbins, Pollak & Co, Siméon & Associés, Sinclair Roche & Temperley and Lussan Brouillaud & Lafarge Flecheux Reguz.

These 22 firms probably now represent the caucus of foreign legal representation in Vietnam. Many firms maintain offices in Hanoi (the political centre) and Ho Chi Minh City (the commercial centre) – for the time being, it is predominantly the Hanoi offices of these firms which have become branches (each branch office is required to run a separate accounting system).

Australian firm Freehill Hollingdale & Page received a licence for its Hanoi office in February, and partner John Dick is relatively optimistic: "The new licence system probably won't make our lives any harder as we already work closely with local lawyers. Although some of our initial concerns have not all been resolved, I think that we will be able to work forward with the new legislation and build a practice on this basis."

The tax issue facing foreign firms has been a concern. Initial rumours suggested a 24 per cent tax on revenue for foreign lawyers and as one lawyer resident in Ho Chi Minh City put it: "When one considers that the expenses of foreign firms here are close to 60 or 70 per cent, adding another 24 per cent doesn't leave much.

"Some foreign firms have expressed doubts over whether they will continue in Vietnam, but if that tax is implemented there will be grave doubts about the future for most firms here."

However, the reality is likely to be less drastic after lobbying from the foreign legal community which pointed out that licensed firms would find it hard to compete with non-licensed operations and accountants.

As one Hanoi-based English lawyer explains: "It now looks like being a 4 per cent tax on turnover, along with a deemed profit tax of between 8 and 14 per cent. This is still very high, but a lot better than the original 24 per cent proposal."

It would now be extremely hard for any new law firms to enter Vietnam. Depressed investment activity, along with tough and expensive practice restrictions have transformed an attractive market where, as one lawyer remembered wistfully, "anything was possible", to one of harsh realities.

Survival looks like being reserved for those firms prepared to commit substantial resources to remaining in the country, and to those with longstanding business and political connections.

A good example of the latter is Lucy Wayne & Associates, headed by Lucy Wayne who first came to Vietnam in 1992. She is optimistic: "I think foreign investors are taking a more cautious approach and finding out more about the legal infrastructure here before coming in. That is probably a good thing, as the last thing Vietnam needs at the moment is failed investments."

Four law firms stand out in Vietnam – Clifford Chance and Freshfields of the UK and White & Case and Baker & McKenzie of the US. They have deep resources and the ability to dig in and wait for the big project financings to come on stream.

There are others with extremely well-regarded local practices, including Lucy Wayne, Deacons Graham & James, Johnson Stokes & Master, Freehill Hollingdale & Page and Phillips Fox, which should weather the vagaries of investment flows up to and after this month's Communist party congress.

But others will begin to find Vietnam increasingly inhospitable. Long-awaited projects are only now beginning to materialise, activity in capital markets is embryonic and predictions of a stock market by the end of 1997 look optimistic.

With the likelihood of significant tax burdens falling on top of already depressed inward investment activity, the Vietnamese are testing commitment to the limit.

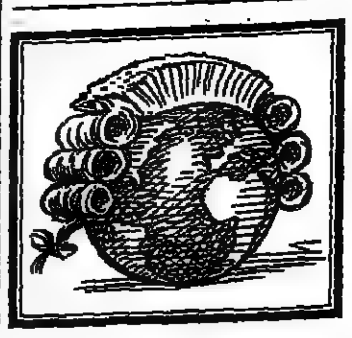
But the big firms, backed by expensive resources, have all committed heavily and will undoubtedly be rewarded by substantial mandates.

As one foreign lawyer commented: "It is our understanding that only those firms with registered branch offices in Vietnam will be allowed to bid for work from Vietnamese companies. The justice ministry appears to be making it difficult to do Vietnam-related work if you do not have an office here. They are basically repaying commitment."

Mr Mark Fraser, Freshfields' representative in Ho Chi Minh City, concludes: "I believe there will be a period during which many firms here will not be making significant amounts of money because of the level of work coming in and the fact that the big projects are only just starting to trickle though."

The author is an editor of the Asia Pacific Legal 500, a directory of law firms to be published in July.

LEGAL BRIEFS



Barristers launch free service for deserving cases

The Bar is to offer a new free service to the public. Launching the Bar Pro Bono Unit last week, Mr Peter Goldsmith, QC, former Bar chairman, said the aim was to provide legal services in specific cases where justice would otherwise be denied.

The Pro Bono Unit will hold a register of barristers willing to offer up to three days of their time to deserving cases in any field of law. So far more than 300 barristers have offered their names for the register.

Mr Goldsmith said: "This scheme is no substitute for a properly funded legal aid system. But it is a responsible reaction to barristers' concern about the numbers of people who slip through the legal aid net and I believe the unit will make a real contribution to tackling specific and acute instances of injustice."

Shipping office

Stephenson Harwood, the City law firm, is to open an office in Piraeus, Greece, in the autumn. In the short term the office will concentrate on offering shipping advice, particularly in the area of ship finance.

Copying move

The Copyright Licensing Agency, which licenses photocopying by government, educational establishments and businesses, is to target the chemical industry in the latest move in its battle against illegal copying. Its campaign is backed up by the threat of legal action against businesses guilty of copyright theft. So far the agency has taken successful legal action against a number of organisations and companies including Morgan Stanley, Manchester City Council and Fournier Pharmaceuticals.

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Global mission: Scientists prepare to carry out centrifugal tests on the Huygens probe that will descend to Titan

Trip to Titan

Bruce Dorminey on the European Space Agency's first attempt at entering an extraterrestrial atmosphere

Three hundred and fifty years after Christiaan Huygens first spotted Saturn's largest moon through his primitive telescope, the European Space Agency's Huygens probe will begin its fiery descent through Titan's dense, orange haze of an atmosphere.

On or about November 27, 2004, parachutes will slow the probe from a speed of Mach 20 at the outer edge of Titan's atmosphere to almost the velocity of an apple falling from a tree. Whether the $350m (£225m) probe splashes into a global ocean of liquid methane or hits dry ice, it should function for at least three minutes after impact.

By then, however, its main task should have been done. Beginning at 180km altitude, seven years after next year's planned launch, the probe is scheduled to transmit scientific data for 153 minutes. By contrast, Nasa's Jupiter probe radioed data for only 58 minutes before crashing into the solar system's biggest planet earlier this year.

"We could have had a five-hour descent," says Hamid Hassan, the Huygens project manager, based at Estec, the European Space Research and Technology Centre, in Noordwijk in the Netherlands. "But the orbiter which overflies has a limit because of the geometry [of the orbiter's radio receiver in relation to the probe] and a five-hour battery would take all the payload."

As part of the European contribution to the Nasa/Esa Cassini mission to Saturn, the 343kg circular probe will be fitted to the Cassini spacecraft in March 1997 for launch from Cape Canaveral the following October.

The payload includes six experiments for physical and chemical atmospheric profiles of temperature, pressure, winds, turbulence, and molecular makeup; downward- and sideways-looking imagers to examine the atmosphere during the probe's descent; and a package for study of the surface. This includes an acoustic radar which will work as a sonar-like sensor in case landing occurs on a liquid surface.

Daniel Gautier first came up with the Huygens probe idea while a co-investigator on Nasa's 1977 Voyager One interplanetary mission. "I was intrigued by Titan when I saw Voyager's first picture of it and had the idea that the next mission should be there," says Gautier, now the research director at Paris Observatory-Meudon. "So, in 1982, I answered Esa's call for new missions."

With a diameter of 5,140km, Titan is bigger than Earth's moon, Mercury, or Pluto, and has a mainly nitrogen and methane atmosphere several hundred kilometres thick.

"At minus 180°C, it is too cold for life as we know it to evolve, and there is no water," says Jean-Pierre Lebreton, Huygens's project scientist. "Yet Titan will help us better understand chemistry on Earth 4bn years ago, before life began."

Observations made by the Hubble telescope rule out a global ocean but do suggest Titan has mountains 10km high. Also, it has large methane reservoirs, either from lakes or from sources underground.

"The main objective is to measure the composition of the atmosphere," says Gautier, "in order to detect new organic molecules and determine the deuterium [the isotope of hydrogen] in the methane on Titan."

That will tell researchers whether Titan's atmosphere came from passing comets or its interior. Gautier believes the atmosphere came from the interior, meaning that Titan must have volcanoes to replenish the methane which otherwise would have been dissipated by radiation.

Huygens is Esa's first attempt at entering an extraterrestrial atmosphere. The agency chose France's Aerospatiale as prime contractor mainly because of its expertise in re-entry heat shield technology, largely gained through work with France's missile programme.

According to Gerard Ute, Aerospatiale's programme director, some technical aspects were tougher than expected because of the heat shield's demanding requirements. The newly designed silicon-tile shield will be built to withstand up to 2,000°C during the probe's atmospheric braking manoeuvres, double the expected temperatures on atmospheric entry.

The leeway is necessary because of uncertainty about Titan's exact atmospheric makeup. Yet, regardless of outside temperatures, the on-board experiments will hover around 10°C. Once the probe separates from the Cassini orbiter, it cannot be influenced by any radio signal from earth, as signals for the 1.5bn km trip will take 80 minutes each way.

Hassan says: "The last command to separate is it. The probe operates on an electrical alarm activation system composed of three watches. And like all our components, the watches are radiation-hardened and redundant [fail-safe]."

A pyrotechnical firing mechanism, similar to plastic explosive, cuts the bolts to release the probe's heat shield and back cover, causing the first parachute to come into play. "There is the drogue (or pilot) chute, the main chute and then the stabiliser chute with which we descend to the surface," says Hassan.

"The whole thing flows with the wind although we do have a target area. There are gusts and we've designed for that. We tested the chutes in Sweden and when it landed there on snow, it was still working."

All data will be uploaded to the Cassini orbiter's solid-state recorder, a recorder with no moving parts much like a computer memory chip. From there the data can be sent back to Earth in an hour or so, at about the speed of a normal fax machine.

If there is a magnetospheric disturbance around Earth, the data will simply be downloaded from the orbiter on its next pass within radio range of Nasa's ground-based Deep Space (Receiving) Network.

"The main phase of the mission is the descent," says Lebreton. "So after it touches the ground, everything else is a bonus." It is a bonus that can come in less than a second, during which the probe will do a sophisticated surface analysis of the local atmosphere. And that's enough to keep theorists busy for years.

Tough times ahead for ceramics

Tom Mead looks at a new alumina that can withstand extremely high pressures and sudden shocks

It is a matter of legend that in 1947 a UFO crashed near Roswell, New Mexico. Ceramic-like material said to have been collected at the crash site could withstand sledge-hammer blows and cutting torches.

Now researchers at Michigan Technical University (MTU) have developed a ceramic that may rival the toughness of the supposedly extraterrestrial substance. Indeed, the properties of MTU's terrestrial high-strength aluminium oxide material appear ready to overshadow the legend.

Traditional ceramic material – the stuff of coffee cups, telephone-pole insulators and ballet figurines – exhibits several interesting characteristics. It is easily worked into complex shapes, it is electrically insulating and it can withstand extremely high temperatures without deforming or crumbling.

But it is very brittle and, because cracks will propagate catastrophically, has low resistance to shocks or sudden impacts. That combination of characteristics makes traditional ceramics simultaneously highly desirable and yet quite unusable in a number of applications.

At MTU, William Predebon and doctoral student Jim Staehler used a proprietary mix of time, temperature and pressure to form a white, chalky-coloured, 2in diameter, ¾in thick disc of high-strength alumina – a refined cousin of the material used to make a coffee cup.

It was subjected to the usual array of laboratory tests used to determine the properties of engineered materials. But, when tested for crush (uniaxial compressive fracture strength) and sudden-impact strength, the conventional test results reported a material with quite unconventional properties. "We couldn't fracture it," says Predebon. When the disc was subjected to a press exerting a crushing force that should have turned it to dust, the press reached its own limit before the alumina.

In the time-honoured tradition of science, a more powerful press was then used. When this subjected the alumina to 50 per cent more quasi-static (ever-increasing) pressure than had ever been withstood by any alumina, the disc fractured at well over 800,000lb of pressure per square inch (PSI).

"There was nothing else comparable," concludes Predebon. Such concentrated pressure can be visualised as the weight of a 200-car stack of 4,000lb cars exerted on the face of a wristwatch. The test disc was so resilient that the researchers had to protect the working faces of the press with sacrificial plates made of tungsten carbide – one of the highest compressive strength materials available. Even the plates failed before the alumina.

In addition to surviving extremely high pressures applied relatively slowly, the improved material also withstands sudden-impact stress better than any alumina tested. If the 800,000lb PSI is applied in a fraction of a second, the material's impact compressive fracture strength increases to more than 1.2m lb per square inch. From an applications point of view, the ability to withstand a sudden shock is related to its dynamic tensile strength. A material with high tensile strength has a high resistance to tension forces, which tend to tear it apart.

The material is tougher than traditional ceramics and can absorb and withstand more energy without failing

The new alumina exhibits that characteristic, which gives it the ability to withstand sudden-impact stress. When the object (for example, an artillery shell) delivering the sudden-shock impacts, its energy is transferred to the impacted surface and radiates outward. When the energy reaches the edges of the impacted material, it has nowhere else to go, and so tends to exert a massive stretching or ripping tension on the interior of the material.

The new material, on which MTU owns two US patents, has about twice the dynamic tensile strength of conventional ceramics. That may lead to its first application as armour on military tanks – interest has been expressed by the UK, Sweden and Germany for tank armour, as well as by the US Army Tank Command.

The material is also 20 per cent tougher than traditional ceramics in that it can absorb and withstand more energy without failing, even in the presence of internal flaws which generally make materials more likely to fail. Pound for pound it is twice as strong as steel in compression. Finally, up to a certain point, as impact strain increases, so does its strength.

Potential applications capitalising on its high strength and high temperature resistance include use in ceramic cutting tools, ceramic pistons, engine components and as a bioceramic – a smooth ceramic that can be used inside the human body.

As for other future applications, Predebon says: "The one that looks very exciting at the moment is microwave transmission. If indeed we can show that our material has the right electrical properties, such that it would provide an advantage over current ceramics for microwave transmission, it could have the same impact on that industry that optical fibres did for the transmission of light.

"You send light down an optical fibre, and the beauty of it is you get all the light out at the far end that you put in at the beginning; you experience virtually no loss. Similarly, when you send a microwave through a ceramic wave guide you want to be able to get all of it out at the other end.

"This material has the potential to provide that kind of pure, zero-loss transmissivity, an ability current ceramics cannot provide."

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The master of sublime despair

William Packer reviews the Giacometti exhibition in Edinburgh

If Giacometti is one of the great figures of Modern Art, he is also one of the most singular. Developing as a sculptor within the common preoccupations of expressionism and surrealism between the wars, he became ever more particular and idiosyncratic in his work as he became fixed upon the irreducible image and presence of the human figure. He founded no school and had no followers. Yet still, 30 years after his death, he is among the most widely known of modern artists, his spindly figures with their bleak, frontal gaze and their distressed, fraught flesh, the very image of the troubled and alienated modern psyche.

For such an artist, any retrospective, rather than fix upon particular shifts and diversions over a full career, will confirm instead the insistent, all but neurotic narrowing of interest to focus at last upon the final, essential theme. But this latest, exemplary show at Edinburgh does more than that, for by the clear chronology of its arrangement, and the sympathetic mixing of the painting with the sculpture, it goes further than any show of Giacometti that I can remember in showing him neither as painter nor sculptor, nor indeed as draughtsman, but as the truly integrated artist he was.

Sculpture may have been his dominant medium, but painting and drawing always served the same essential preoccupations no less seriously. If there are differences to point between them, they are differences of emphasis and attention consequent upon the nature of each particular medium. They do not call into question his fundamental consistency as an artist.

The work stands all of a piece, not only laterally across his practice of the moment, but from first to last. We look at the early portraits, in which the rich expressionist handling of the paint foreshadows directly the vigorously kneaded clay of the final sculptures. The Brancusi-like simplicity of the early abstract sculptures and near-abstract figures is sustained in the totemic standing figures and *stele* of the 1950s.

And always there is the near-obsessive concern with space, whether it is the pictorial space of the painter or the actual space of the sculptor. Figure and space are functions of the same existential truth. Of all modern artists, it is Giacometti who has probed, picked and nagged away at this conundrum.

We find him at it as much in the early facetted and monumental portrait heads of the 1920s, born out of cubism and constructivism, as in the later canvases with their attenuated figures that stare out at us so implacably from the grey mist. There it is in the splayed images of the surrealist sculpture, in the later figures striding across their city squares, in the paintings of the empty studio, in the figures in their boxes, in their cages, on their plinths and bases.

Sculpture, by its nature, is the more definitive for being actual, made of real stuff standing in real space. With Giacometti's sculpture, the sense is ever of that encompassing space pressing in implacably upon the figure, reducing and compressing it to the point of disappearance into the black hole. With the painting and drawing the sense is no less desperate, but only more tentative as the artist seeks, by his marks and signs, to establish and then invade the non-existent space of the imagination beyond the picture-plane. Painting and drawing were for him an activity of enquiry, the matter only approached, never resolved. It is intimate work, scrappy, perfunctory, informal, uncertain for all the intensity of the scrutiny of the subject. Line overlies line, change upon change, possibility after possibility, nothing fixed.

The painter can address alike the landscape bounded by infinity and close space of the studio or table-top. The sculptor, by contrast, is confined to his own physical compass. Which in the end is the more real? And in every work of Giacometti, the question is asked only to be left hanging in the air, the image always left off, incomplete. In the sculpture such indecision is only the more decisive – a paradox typical of art. The clay exists, occupies space, holds a form, is what it is. Just so is commitment made to the insoluble problem of the image, accepted and presented just as it is.

Giacometti was ever the surrealist, but never one of bizarre associations, psychological games and black humour. Rather, his is the resigned and melancholic surrealism of the human condition, the individual cast quite alone in space and time. His sublime despair is profoundly moving.

Alberto Giacometti (1901-1966): Scottish National Gallery of Modern Art, Belford Road, Edinburgh, until September 22; supported by The Stanley Thomas Jones Foundation, The Foundation for Sport and the Arts, The Henry Moore Foundation, Dunard Fund, The Swiss Cultural Fund, Crossair and Pro Helvetia Arts Council of Switzerland.

Figures alone in space and time: 'Buste di Diego', 1949/50, by Giacometti

Sex Pistols: back on the offensive

Comedian Jeremy Hardy used to crack a joke about having become his father: "Young people's music today, it's not really music, is it? No proper tunes, no words you can sing along to.." And then the punchline: "...In my day we had the Pistols and Buzzcocks." Sunday's Sex Pistols reunion concert in Finsbury Park (heralding a short tour and recorded for a live album) had much the same texture, with a clutch of today's popular beat combos being shown the door by a bunch of middle-aged men who had no right to be remotely as exciting.

Iggy Pop may be pushing 50, but easily outdoes Cliff Richard in the Peter Pan stakes. The godfather of punk delivered a blistering collection of classics from the *Raw Power* and *Lust for Life* eras of the 1970s, interspersed with a few numbers from his current album *Naughty Little Doggie*. His would be a hard act even for the second coming of the Sex Pistols to top; as if recognising as much, whilst the stage was being set up for them the PA system blared out the blandly cheery pop which punk banished from the charts; the Brotherhood of Man, Leo Sayer, even – saints preserve us – the Bay City Rollers.

Introduced by football hero Stuart Pearce, and bursting through an enormous collage of choice newspaper headlines from the days of outrage, John Lydon slipped gleefully back into his erstwhile persona of Johnny Rotten as the four Pistols launched straight into the most offensive of their old numbers, "Bodies". At the first chord this quartet of men in their 40s ("Fat, 40 and back" chanted Rotten defiantly), who last played together 18 years ago, turned Finsbury Park into one of the biggest mosh-pits in history: a crowd composed more or less equally of those keen to relive their past, those keen to buy into a venture which had last been a going concern in their infancy and the merely curious, fused into a single seething, roaring mass, albeit one rapidly subsiding into breathlessness.

Diligently suppressing any signs of flash musicianship, drummer Paul Cook, guitarist Steve Jones and original basist Glen Matlock (sacked from the band in 1977 in favour of the incompetent but iconic Sid Vicious) fiercely got on with the job of reproducing the *Never Mind the Bollocks* album, a handful of B-sides and the Pistols's revered cover of The Monkey's "(I'm Not Your) Stepping Stone". The band in their heyday, though, were never this tight.

But the evening was Rotten's. In an obscene plaid jacket topped off with a crown of spiky green hair, he paraded around his home turf like the infernal offspring of a catwalk model and the Child Catcher from *Chitty Chitty Bang Bang*, conducting the raucous massed choir (his own microphone could have failed without anyone noticing), winding the crowd up with lines such as "don't worry, its only Uncle Johnny and the boys" delivered with Peter Cook-like snidery, and at one point sending a video cameraman scurrying off the stage with a well aimed kick. It was, as one punter remarked, cabaret; a travesty of the original punk ethic, it was merely a big, brash, nostalgic ritual... but the pantomime-stroppy energy and the unholy row sent thousands of grown adults into frenzies of ungainly pogoing. The Sex Pistols are no longer the only game in town, but they are still among the most boorishly enjoyable.

Ian Shuttleworth

The Sex Pistols play (with varying support bills) Glasgow on July 16, Belfast (July 17), Dublin (July 18) and the Phoenix Festival (July 21). The Album Filthy Lucre Live is released on July 29.

Alastair Muir

Adrianne Pieczonka: a natural Strauss soprano

Opera/**Andrew Clark**

A classic Arabella

The dream of meeting "der Richtige" (Mr Right), and the fulfilment of that dream in the fairy-tale world of imperial Vienna, are the stuff of *Arabella* – but without the right leading lady, the opera has no more substance than a blob of whipped cream. So the arrival of Miss Right, in the shape of the Canadian soprano Adrianne Pieczonka, is a cause for rejoicing at Glyndebourne, where she provides a gracious centrepiece for the first Strauss production in the new theatre. In her second summer on the Sussex Downs (she sang Donna Elvira last year), Pieczonka offers a fully-formed portrait of Arabella, which puts her in a distinguished line of postwar interpreters.

From her first entrance she quietly dominates the stage, with none of the blandness that can creep into one of Strauss's more insipid heroines. Pieczonka has the advantage of height and impeccable carriage, to which she adds femininity and calm self-awareness. This Arabella knows her mission in life – she is no flirt – and has the intelligence to keep her cool when everyone else is losing theirs.

Above all, Pieczonka is a natural Strauss soprano. With its plummy richness, ecstatic top and all-embracing purity, the voice sits easily on the part, and has no problem projecting above the orchestra. The tingle factor is at work the moment she begins her preamble to the opening duet, and she knows how to caress her lines in the most captivating way. Pieczonka does not put a foot wrong the entire evening.

With the possible exception of Alison Hagley's Zdenka, who looks credibly boyish but sings with less than swallow-like ease, Glyndebourne has assembled a near-ideal cast for this revival of John Cox's much loved 1984 production. Building on his success as Covent Garden's Mandryka earlier this year, Wolfgang Brendel presents a more subtle suitor than most. He captures the Croatian outsider's rustic honesty without a trace of coarseness, and sings with similar taste. Artur Korn's vintage Waldner is paired with an Adelaide who could well be on HRT, so easily does Anne Howells justify the amorous attention of younger men. And Inger Dam-Jensen offers a scene-stealing cameo as the Cabbies' mascot.

Dietfried Bernet conducts with the clarity and refinement of a born Straussian, so that there is no mistaking the score's mercurial currents, baroque splendour and Viennese gaiety. He knows just when to relax the tempo, expand the phrasing and shade dynamics, and the London Philharmonic follows him all the way. Cox's production loses nothing in its transfer to the bigger stage: the sets are as handsome as ever, the comedy just as fresh, and Cox gives younger producers a textbook example of how to compose each scene.

This is a classic *Arabella*, classic Strauss and classic Glyndebourne.

Revival sponsored by Private Bank and Trust Company Ltd.

Barclays New Stages/**Sophie Constanti**

One man and the world

The small black box that is the Royal Court's Theatre Upstairs – venue for the more compact shows in the Barclays New Stages festival – does not readily suggest potential for transformation. Not that this has prevented the first two Upstairs productions in this year's festival from playing extravagant mischief with the theatre's restrictive dimensions.

In his solo show, *A Large Attendance in the Antechamber*, Brian Lipson addresses his audience from within a cubicle-sized reproduction of a Victorian study – supposedly that of Francis Gaulton, founding father of Eugenics. The cubicle, no wider than the desk which fronts it, is heavy with paraphernalia and period detail: a ceiling rose, oil lamps and, of course, books.

As Gaulton, or rather, as Gaulton knowingly resurrected ("I was alive for 89 years, I've been dead for 84... things could change"), Lipson holds forth on an incongruous array of topics: the measure of fidget; how to collect "vital statistics" from a distance; and scientific mastery over the afternoon brew. An eccentric intellectual operating within his own bizarre matrix of views, theories, concepts and formulae, Gaulton switches between unrelated subjects in an astonishing display of logic-chopping whereby he not only articulates tangential thoughts but expands them into a series of parallel ideas.

Some of these ideas – like the composite portrait of three sisters, designed to produce the more pleasing image of a fourth sister – reveal a man fascinated by photographic experimentation and delusion, and are harmless. Others – like the base chart for a system of Eugenics: (i) no low stock reproduction, (ii) reward good reproduction, (iii) no charity – are decidedly sinister. Lipson's Gaulton declares that his "only interest in this resurrection is to discover the fate of Eugenics", at which point the performer wisely elects to kill him off again. Lipson does not so much inhabit Gaulton's ghost as become possessed by a man who was "widely vilified as a heretic and a scoundrel".

In contrast to this elaborate miniature, *Ocean of Storms*, devised and performed by the Birmingham-based Stan's Cafe, is a journey into the void. Two women, Sarah Dawson and Amanda Hadingue, are stranded in outer space. Darkness surrounds them, with an illuminated Chinese lantern globe a visual reminder of earth. In multiple fragments of characterisation, the women are momentarily the same people whose conversations they eavesdrop upon. A succession of voices break into the unknown orbit, monologues are abruptly truncated or fizzle out. These transient reassurances of human life are seized, dropped, lost and familiarities are suddenly seen anew. Whereas Lipson's show focuses on one man, *Ocean of Storms*, is a meditation on an entire world which has been left behind: it enlarges the theatre space as magically as Lipson's Gaulton compresses it.

The Barclays New Stages festival runs until July 6 (0171-730 1745).

INTERNATIONAL ARTS GUIDE

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-5518117
● Eidos: Telos: a choreography by William Forsythe to music by Willems and Schoenberg, performed by the Ballett Frankfurt. Part of the Holland Festival; 8.15pm; Jun 27, 28, 29

EXHIBITION
Rijksmuseum Tel: 31-20-6732121
● South Wing: after three years of renovation, the museum's South Wing is open to the public again. Displays of 18th and 19th-century paintings, Asian art, costumes and textiles are on view in 16 new rooms; to Sep 22
Stedelijk Museum
Tel: 31-20-5732911
● Under Capricorn: this exhibition focuses on artists' views on life in a world which seems to be getting smaller all the time as a result of modern (communication) techniques. A similar exhibition is held simultaneously in the Wellington Art Gallery in Wellington, New Zealand. The display features works by approximately 20 artists; from Jun 28 to Aug 25

BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Staatskapelle Berlin: with conductor Carlo Maria Giulini perform works by R. Schumann and Brahms; 8pm; Jun 26, 27

DANCE
Staatsoper unter den Linden
Tel: 49-30-2082861
● Le Concours: a choreography by Maurice Béjart to music by Le Bars, performed by the Staatsopernballett. Soloists include Siepert, Stolz-Franke, Schroeder and Neary; 8pm; Jun 25, 26

OPERA
Komische Oper Tel: 49-30-202600
● Die Entführung aus dem Serail: by Mozart. Conducted by Shao-Chia Lü and performed by the Komische Oper. Soloists include Heinrich, Korovina, Rühmann and Conrad; 7pm; Jun 26

GLASGOW

CONCERT
Glasgow Royal Concert Hall
Tel: 44-141-3326633
● The Royal Scottish National Orchestra: with conductor Bramwell Tovey perform works by J. Strauss, E. Strauss, Lehár and Suppé; 7.30pm; Jun 26

LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● London Symphony Orchestra: with conductor John T. Williams perform music from the films "JFK", "Superman" and "Close Encounters of the Third Kind"; 7.30pm; Jun 26, 28
Royal Festival Hall
Tel: 44-171-9604242
● Murray Perahia: the pianist performs works by Handel, Scarlatti, R. Schumann and Chopin; 7.30pm; Jun 26

EXHIBITION
Victoria & Albert Museum
Tel: 44-171-9388500
● The Pre-Raphaelites and Early British Photography: this exhibition brings together drawings and watercolours by the Pre-Raphaelites and their followers; to Sep 29

OPERA
London Coliseum
Tel: 44-171-8360111
● Der Prinz von Homburg: by Henze. Conducted by Elgar Howarth and performed by the English National Opera. Soloists include Peter Coleman-Wright, William Cochran and Susan Bickley; 7.30pm; Jun 26, 28
Royal Opera House - Covent Garden Tel: 44-171-2129234
● Nabucco: by Verdi. Conducted by Mark Elder and performed by the Royal Opera. Soloists include Cynthia Makris, Elena Zaremba, Gregory Yurisich and Kurt Rydl. Part of the Verdi Festival '96; 7.30pm; Jun 26

LOS ANGELES

EXHIBITION
The J. Paul Getty Museum
Tel: 1-310-459-7611
● Ten Centuries of French Illumination: an exhibition of 20 manuscripts and single illuminated pages, presenting a survey of French painting in books, from the 9th to the 18th century. It includes richly illuminated books of many kinds, including scripture, liturgical and devotional books and bestiaries; to Jul 7

NEW YORK

CONCERT
Avery Fisher Hall
Tel: 1-212-875-5030
● Viva Brasil: Zizi Possi and Paulinho da Viola perform Brazilian music; 8pm; Jun 28, 29

EXHIBITION
The Metropolitan Museum of Art
Tel: 1-212-879-5500
● Modern Glass as Art: this exhibition, selected from the Metropolitan's collection of 20th-century architecture and design, explores glass as a medium for contemporary art and includes works made by a variety of techniques; to Oct 6
The Pierpont Morgan Library
Tel: 1-212-685-0008
● Documenting the Times: Selections from the Archives of the New York Times: exhibition commemorating the centenary of Adolph S. Ochs's purchase of The New York Times. With letters, manuscripts, photographs and early newspapers from The Times' own archives, the exhibition explores Ochs's journalistic mission to make the paper "the model American newspaper"; from Jun 26 to Sep 15

PARIS

EXHIBITION
Centre Georges Pompidou
Tel: 33-1-44 78 12 33
● Gaetano Pesce: a retrospective exhibition devoted to this artist, featuring furniture, objects and architectual projects; from Jun 26 to Oct 7
Musée Carnavalet
Tel: 33-1 42 72 21 13
● Les Russes à Paris: exhibition focusing on the French view of the Russian community in the 19th century. The exhibits come from Russian and French museum collections and include portraits by Winterhalter, busts by Carpeaux, manuscripts and humorous engravings; to Jun 30

SAN FRANCISCO

EXHIBITION
SFMOMA - Museum of Modern Art
Tel: 1-415-357-4000
● Cut, Cast, Assemble: Contemporary Sculpture from the Permanent Collection: exhibition of 16 large-scale sculptures from the museum's collection, including works by Alexander Calder, Richard Deacon, Luciano Fabro, Barbara Hepworth, Henry Moore and Louise Nevelson. This exhibition is the first since the opening of the new museum building in which the fifth floor is seen without inside walls, fully revealing the grand sweep of the museum's uppermost space; to Jun 30

SPOLETO

FESTIVAL
Associazone Festival dei Due Mondi Tel: 39-6-3210288
● Spoleto Festival - Festival dei due Mondi: festival under the direction of Giancarlo Menotti, featuring performances of lyric works, concerts, ballet, plays and films, exhibitions and conferences. The 39th edition of the festival includes Menotti's The Death of the Bishop of Brindisi, Handel's Semele, Tchaikovsky's Eugene Onegin and Squillante's Spiritus Mundi, and performances by the Ballet de Nancy et de Lorraine. The festival is concluded on July 14 with a performance of Mahler's Second Symphony on the Piazza Duomo; from Jun 26 to Jul 14

TOKYO

CONCERT
Suntory Hall Tel: 81-3-35751001
● Orchestre Symphonique de Montréal: with conductor Charles Dutoit and pianist Minoru Nojima perform works by Glinka, Tchaikovsky and Stravinsky; 7pm; Jun 26

WASHINGTON

EXHIBITION
National Portrait Gallery
Tel: 1-202-357-1915
● 1846: Portrait of the Nation: in celebration of the 150th anniversary of the founding of the Smithsonian Institution, this exhibition describes the political, cultural and social character of America in 1846 by focusing on the leading figures of the time; to Aug 18

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European Money Wheel

18.00
Financial Times Business Tonight

United across the Internet

Robert Taylor explains why trade unions are planning greater international co-operation

Trade unions around the world are struggling to survive in the increasingly global economy. What limited power and influence they were able to establish after the second world war is being eroded by rising unemployment in the west and attacks on union rights in many developing and industrialised countries.

Their job has also been made much harder in the workplace, with the fashion for employment practices that bypass collective bargaining. And the decline of full-time, permanent jobs in large companies and the growth in part-time work in small enterprises has made organising workers in unions more difficult.

"Organised labour is under attack on a global scale and with an intensity never before experienced in its history," says Mr Bill Jordan, general secretary of the International Confederation of Free Trade Unions (ICFTU). "Unions at nation state level are seeing much of what they have achieved being undermined by global financial and industrial decisions."

His organisation, which claims to represent 127m workers in 136 countries, hopes to agree a new strategy to meet the challenge at its triennial conference which starts in Brussels today.

Union leaders are under no illusion that a renewal will be easy. "The basic values of trade unionism, sometimes even the need for unions at all, are being questioned in almost every region and every industry," says Mr David Cockcroft, general secretary of the International Transport Workers' Federation which celebrates its centenary this month.

Unions have always found it hard to co-operate across frontiers. Divisions of language and race – as well as economic and social inequality – make it difficult for them to agree on credible international policies.

"Capital has become global but trade unions remain almost entirely locked in national perspectives. This has to change if unions hope to win back influence in the realm of economic and social decision-making," says Mr Denis MacShane, the UK Labour MP who once worked for the International Metalworkers' Federation.

Before the collapse of the Soviet Union, politics erected a barrier between those unions that looked to Moscow for leadership and those that rejected communism. The end of the cold war has at least removed that barrier to solidarity for international labour – leading to a more active, if tentative, search for policies to meet the challenge of globalisation.

For example, unions have been campaigning more vociferously for the universal acceptance of core labour standards by countries and global corporations. These would include the right of workers to create and join unions and bargain collectively with employers, together with the abolition of child and indentured labour and an end to discrimination in employment on grounds of gender and race. They have now won the support of the International Labour Organisation and the US and French governments.

A recent campaign by the Foodworkers' International union (IUF) helped persuade PepsiCo, the US fast-food and soft drinks giant, Heineken, the Dutch brewery group, and Carlsberg, the Danish brewer, not to invest in Burma as a protest against the harsh labour conditions there. And the metalworkers' federation – which helped Polish Solidarity and the nascent South African labour movement in the apartheid era – has taken a leading role in pressing for worker rights in China and South Korea.

> 'While workers are organised at world level, they have not so far matched the effective globalisation achieved by capital'

In Europe, unions have used European Union law to negotiate the creation of works councils for employees in large transnational companies which they see as the first step towards global consultative forums. The foodworkers' international union has recently signed an agreement with Danone, the French-based food and drinks group, to create a worldwide information and consultation committee for its workers.

"While workers are organised at world level (as indeed are consumers and environmentalists), they have not so far matched the effective globalisation achieved by capital," says Mr Vic Thorpe, general secretary of the Geneva-based ICEM, the new international federation of unions that brings together chemical, energy and general workers with mineworkers.

However, unions are now taking their campaigns against large corporations onto the global stage. For example, the Postal, Telegraph and Telephone International launched an offensive against Sprint, the US long-distance telephone company, after it dismissed Hispanic workers at its San Francisco plant, allegedly for wanting to join a union. When the company later closed the plant, unions in Germany and France put pressure on their national telecom operators to force Sprint to adopt a code on labour standards as a condition for entering an international alliance.

Such action was also used recently against Bridgestone, the Japanese tyremaker, when strikers at its US Firestone subsidiary were replaced by a substitute workforce. Unions in Turkey, Belgium and Japan organised strikes and pickets outside the company's plants in those countries.

Unions are now using new information technologies such as the Internet and e-mail to work together more effectively. This will involve the creation of databanks to provide unions with information on specific global companies not available from other sources. Fast access to information is seen as a way of pursuing more aggressively targeted and selective campaigns against companies or governments that abuse workers or unions.

But Mr Jordan acknowledges this will take time and money and his resources remain limited at present. "If our campaigns are to succeed, the ICFTU must become the communications hub of an international trade union network."

Such developments can succeed only if unions start growing again, however. In most industrialised countries, less than a third of workers are now in unions, while the figure is under 10 per cent in developing nations. This will mean recruiting more vigorously among young workers, women, part-time employees, homeworkers and the self-employed as well as those working in small companies where trade unionism has rarely been strong.

Many unions are looking with hope to developments in the US where the AFL-CIO union federation has gained a new vigour under the presidency of Mr John Sweeney, the militant former leader of the Service Employees Union. It has adopted methods used in the freedom drives of the civil rights movement in the early 1960s, with young people sent out in teams across America to recruit new members.

A $20m fund has been created for a project that Mr Sweeney has described as the "rebuilding of the American labour movement". Similar developments are taking place in Australia and Holland.

Organised labour is trying to come off the defensive in the global economy. But the utopian call of the 1848 Communist Manifesto – "Workers of the world unite" – looks as far away as ever.

LETTERS TO THE EDITOR

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We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e-mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Tedium of immigration service on Eurostar

From Mr A.C.R. Elliott.

Sir, Charles Batchelor's recent article on Eurostar, "New light in the tunnel" (June 10), did not cover one important aspect, namely immigration controls. For the most part, immigration officers in the UK carry out passport controls during the journey swiftly, efficiently and with the minimum of fuss. However, there are some Eurostar services without this facility. This results in a very tedious queue at Waterloo International Terminal, which compares with the queueing time at Heathrow or Gatwick. On June 16, for example, the train from Paris, which arrived at about 13.50, resulted in a 45-minute wait for some passengers at the end of the advertised three-hour journey.

It Eurostar is to compete with the airlines this is one on-board service to which it will surely wish to pay attention, arranging for immigration clearance on all services.

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Free trade target date essential to remove 'spaghetti bowl' of barriers

From Prof Jagdish Bhagwati, Prof Arvind Panagariya, and others.

Sir, Recently the idea that the World Trade Organisation should have a target, such as 2015, to achieve worldwide free trade has been proposed independently by many, among them principally by Martin Wolf in your newspaper. It has been endorsed by Mr Donald Johnston, OECD's secretary general, and by the UK's trade secretary, Ian Lang. There have also been indications of interest in the proposal by Mr Renato Ruggiero, director general, WTO.

As economists deeply interested in the future of the world trading system, and keeping in view the first WTO ministerial in December in Singapore and the opportunity it presents for undertaking a significant initiative on trade, we and a group of economists worldwide would like to lend our support to the idea and to urge the member states of the WTO to make the endorsement of such a WTO target their first priority. Among its advantages, a few are significant.

While consistent with Article 24 of the General Agreement on Tariffs and Trade, there are now so many preferential trade arrangements (PTAs) such as North American Free Trade Agreement and the European Union's numerous free trade areas with other countries, that a virtual "spaghetti bowl" of criss-crossing preferential trade barriers has arisen, with different duties applying depending on which country the product being imported is assigned to.

We are therefore in danger of reproducing the chaos created by the absence of most favoured nation status during the 1930s, produced then by protectionism but now, ironically, by free-trade intentions. Given the politics that often drives these PTAs, any attempts at reducing their spread do not seem to be likely to succeed. While some of us have indeed suggested reforms in Article 24, and in disciplines such as the use of anti-dumping duties on non-members, as ways of minimising the adverse effects of the preferences that the PTAs inherently imply, the worldwide achievement of free trade appears to be the most effective remedy. The reason is that preferences relative to zero duties are zero: preference would be effectively killed at source.

Then again a principal advantage of PTAs, which seems to attract trades-oriented businesses in particular, is that they offer target dates that will lead on schedule to ultimate free trade, albeit within a limited area. By contrast, the Gatt/WTO lurches from one round of multilateral trade negotiation to another, the end of a round never linked for sure to the start of another, as is in fact the case again with the end of the Uruguay Round.

A WTO target would thus cut through this fundamental weakness and simultaneously eliminate multilateralism's chief disadvantage vis-a-vis the inherently discriminatory PTAs, contributing to the current efforts at restoring the primacy of the WTO in the world trading system.

It would also set the WTO firmly on to the task of completing the agenda of worldwide free trade, an objective which Gatt pursued diligently through successive rounds of multilateral trade negotiations and whose advantages have been demonstrated by nearly half a century of experience.

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More than money cements relationships of EU members

From Mr Jerry Zondervan.

Sir, I would like to comment on Martin Wolf's article "Thinking the unthinkable" (June 18). Mr Wolf fails to take into account what I see as a very important point – the EU is not only about money; indeed, it would be very sad if it were.

There are many other aspects which are just as important, such as the freedom of people to move, to get to know each other. Mutual understanding is followed by tolerance and maybe friendship or marriage rather than hostility.

How about education? This was not mentioned even once by Mr Wolf. Programmes such as Erasmus are a creation of a united Europe, as is the "Euroguichet", created to help consumers work out problems in transnational purchases. As before, mutual understanding.

Or again, how about the fact that many people consider themselves as European citizens first, and only then citizens of a certain nation. This is certainly so in my case. I am first and foremost a European citizen; then I am a Dutch citizen.

I currently live in Switzerland, which is notoriously not part of the EU. The difference in the relationship between, say, Luxembourg and Belgium (no borders, linked currencies, as full a recognition of each other's study titles as of any other EU title), is very marked when compared with Switzerland and its neighbours (full border checks with waste of time and money, currency completely dissociated, no mutual recognition of studies . . .).

Finally, I would say this (which many people in the UK may not like): the EU can live very well without the UK, although it would be a great cultural loss to us all, but can the UK say that it can live without the EU?

I strongly doubt it.

J.S. Zondervan,
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Switzerland

Superpower's supreme test

Tony Jackson on the US economy's position among world leaders

According to a recent report from Britain's Treasury, the US could be overtaken by China as the world's biggest economy by 2015. Quibbles over the date aside, there is some piquancy in the source. With the possible exception of imperial Rome, history's best example of a fallen superpower is Britain itself.

The decline of America is not a new theme, but this seems a perverse time to advance it. The challenge of China, though real enough, is still some way off. In recent years, more immediate threats to US economic supremacy have faded away.

In 1988, for instance, two specific threats were identified by the Yale historian Paul Kennedy in his book *The Rise and Fall of the Great Powers* (HarperCollins, 1988). America, he said, was suffering from "imperial overstretch": that is, it was spending more than it could afford on defence. At the same time, its industrial and technological lead was being challenged by Japan.

Eight years on, the US defence budget has been slashed, while Japan is in at least temporary eclipse. Above all, America stands over the rubble of communism as the purest exponent of the world's dominant ideology – free-market capitalism.

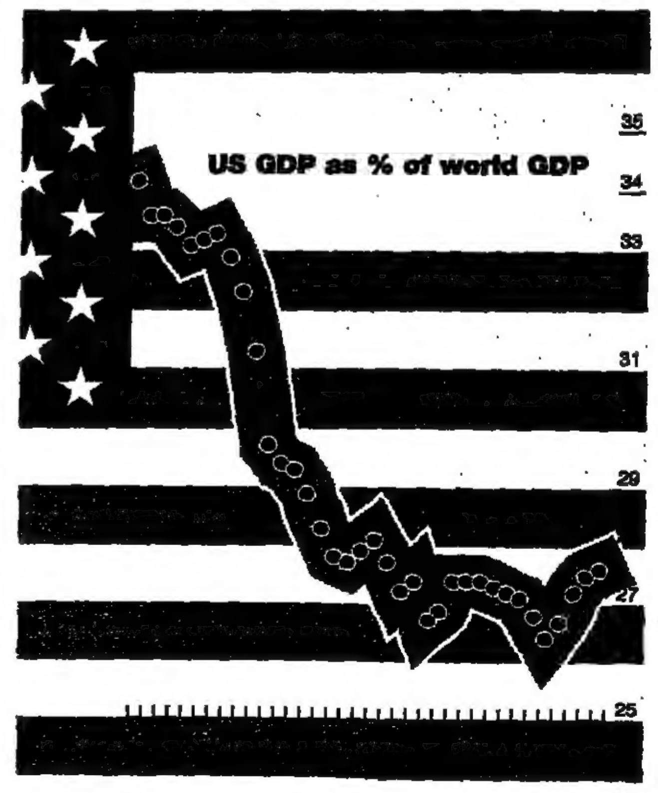
The question is whether this is merely a temporary reversal of a longer-term decline. History shows that nations can command disproportionate power for remarkable spans of time. It also suggests they cannot do so indefinitely.

In America's case, the disproportion is primarily economic. With under 5 per cent of the world's population, the US produces over a quarter of world output. In the long run, this is not sustainable.

The UK remains the most instructive parallel. It is tempting to think of British supremacy in the 19th century as essentially military, if only because the British often thought so themselves. But at its peak around 1860, Britain's military spending was tiny, at around 2 per cent of gross national product. The real basis of its dominance was economic.

In the 1860s, Britain's share of world output was not far short of America's today. For a small island off the coast of Europe, this was wildly anomalous. The figure today is 4 per cent.

America's champions will reject the comparison on two grounds. The US population is several times larger than Britain's. Its territory is also much bigger, richer in resources and easier to defend.



That is only partly relevant. Compared to Britain's 2 per cent of world population in the 1860s, America's 5 per cent today is hardly overwhelming. Granted, the US share of the world's educated population is much bigger again; but that was equally true of 19th century Britain.

America's natural resources are a dwindling advantage in an information-based economy. Agriculture makes up just 2 per cent of its output. The US has oil, but so has Russia. As for the undoubted security of America's borders, that has not stopped it occasionally spending beyond its means on defence.

The analogy with Britain can be extended. In today's world economy, America's strongest cards are its near-stranglehold on information technology, and its dominant position in international finance.

In the mid-19th century, Britain had a similar grip on the corresponding technology, steam power. It also dominated world finance. Wall Street now privatises eastern Europe: London then financed railways and roads around the globe from South America to China.

But if American supremacy is to go the way of Britain's, it will not do so all at once. Seen in retrospect, the decline of nations can seem a continuous process. The reality at the time is a stop-go affair, much harder to detect.

As far back as 1929, America's share of world output was not far from its present level. With the onset of the Depression, it fell sharply. It then rocketed again in the second world war, while Europe's plunged. By 1945, America's share of world output peaked at around 40 per cent.

The subsequent decline levelled out around 1980, as shown in the chart (measured in constant dollars, to avoid exchange rate distortions). Since the early 1990s it seems to have grown again, due partly to the successful restructuring of US industry and the beating back of the Japanese challenge.

That, too, is not without parallel in the British experience. As Paul Kennedy points out, Britain produced a similar response to the industrial challenge of Germany in the years before the first world war: alarm to begin with, then an outburst of effort on education and training, which for a while proved successful.

There is perhaps one encouraging lesson to be drawn: the length of time between the first scent of trouble and its coming to pass. Britain still counted as a great power at the end of the second world war. But the most striking foreshadowing of its decline, Kipling's poem *Recessional* – "Lo, all our pomp of yesterday/Is one with Nineveh and Tyre" – was published in The Times of London, 50 years before, in 1897.

Then again, the world is speeding up. US industrialists will tell you that today they can enjoy the fruits of a new technology for only a few years, where once they could have counted on leadership for decades.

This is particularly true of information technology. In the 19th century, the manufacturing knowhow associated with steam power took a lifetime to master. But software innovators – like mathematicians or chess players – can reach their prime in their early 20s. It may take generations for Silicon Valley to be challenged by Shanghai or Bombay: but the generations may be only five or 10 years long.

As Britain has found, being pushed from the top position is bruising for the ego. It may also put extra strain on social cohesion, which in America's case is a separate issue going far beyond economics. But there is one final source of comfort.

Economic decline can be an entirely relative concept. Average wealth in the UK – as measured by output per head – is still only 25 per cent below the American level. Well over half the world's population survives on less than a 10th of the US figure: some on very much less.

China may or may not become the world's biggest economy. From the viewpoint of most people on the planet, America will remain as stunningly wealthy as ever.

FINANCIAL TIMES

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Tuesday June 25 1996

A marriage in haste

Arranging a shotgun wedding between Aérospatiale and Dassault may seem appealing to strategists in the French government, but it is far from clear that a marriage made in haste will lead to a long and fruitful relationship.

From the point of view of a government fearing its aerospace industry is falling behind its international competitors, there are superficial attractions in putting the two companies together. Britain's stake in Airbus is held by its military aircraft maker, British Aerospace, and the same is true of Germany in the shape of Daimler-Benz Aerospace. What could be more natural than creating a French entity which could then negotiate on equal terms with its European partners about joint ventures or even mergers?

To back up its arguments for cohabitation, the government also has plenty of ammunition. Aérospatiale will continue to need state funding for many of its programmes. Dassault, meanwhile, is at the mercy of the government both for orders of its new Rafale fighter and, crucially, for support in winning export orders. If President Jacques Chirac wants the merger to happen, there is little doubt that he can make it so.

Yet there are good reasons to be concerned about the deal. Dassault and Aérospatiale have little in common; from a business perspective, a merger would neither cut the enlarged company's costs nor add to its capabilities. Worse, Aérospatiale, an organisation badly in need of extensive restructuring and management reform, seems likely to win control of Dassault, a company which has half an eye on the discipline of the marketplace. The fear must be that the unreconstructed Aérospatiale will overwhelm Dassault.

If all of this were a prelude to an early restructuring of the European aerospace scene, which would put the industry on a more viable footing, that might not matter greatly. But progress remains painfully slow; the external disciplines of foreign management are thus unlikely to be felt in France soon.

France could be using that time to rationalise its aerospace industry as BAe and now Dasa have done. Instead, it has focused on creating an artificial entity in the belief that scale alone is enough to make potential partners pay attention. That may actually be counter-productive if the financial structure and business organisation of a combined Dassault-Aérospatiale makes it unattractive to potential partners. Europe's aerospace industry would then remain splintered and unable to compete with the US.

France faces important choices which will have ramifications for the rest of the European industry. Its interests, and those of its partners, would be best served by allowing Dassault and Aérospatiale to negotiate with potential partners separately. If it remains intent on this merger, however, it must not create a structure which deters the genuine rationalisation which is still to come.

Thamesside

"Earth has not anything to show more fair," was William Wordsworth's reaction to the "beauty of the morning" as seen from Westminster Bridge in 1802. "Ships, towers, domes, theatres, and temples lie/Open unto the fields, and to the sky."

Nearly two centuries later, the absence of fields is understandable. Devoid of smog and smoke, the London sky is probably clearer than at any time since the early 19th century. But is hard to see Wordsworth's heart leaping for joy at the "ships, towers, domes, theatres and temples", not to mention the bridges. Somerset House certainly. Big Ben perhaps. But the National Theatre, the Hayward Gallery, Hungerford Bridge and the Embankment are unlikely candidates for "A site so touching in its majesty". And the view from most other central London vantage points on the Thames is not even as good as that.

Mr John Gummer, the environment secretary, is therefore to be congratulated for attacking "mediocre or insensitive development" on the Thames and making its restoration to the centre of London life a prime planning goal. On its own his riparian planning guidance, issued yesterday, will not transform the riverside. But if it acts as a check on insensitive development, and an instrument for lifting the sights of borough planners to the potential of Thamesside, it may do some good.

However, a bigger question looms. As Paris demonstrated so forcefully with its grands projets of the 1980s, a strong governmental lead can work wonders in raising the quality and prestige of city centre development across the board. This requires money up front. But investment funds for prestige London projects are not in short supply since the National Lottery was created in part as a vehicle for glorifying London's elite cultural institutions.

Several large Thamesside projects, headed by the Millennium Exhibition and the new Tate gallery at Bankside, have attracted lottery millions or look set to get them. Mr Gummer should regard these as Thames tests.

Behind the Paris grands projets stood President Mitterrand and Mayor Chirac. Mr Gummer is trying hard at being Minister for London, but he would not place himself in the same league. London needs a dedicated champion with vision and clout.

The great majority of Londoners believe that the best way to get one is through some form of city-wide elected authority. Last week London First, a promotion group supported by most of the capital's business interests, declared itself in favour of a directly-elected Governor for London to tackle large strategic questions such as the future of the Thames. It would not be a panacea. But it might do something to improve the view from Westminster Bridge – and perhaps more besides.

Votes in whales

In the television age, gruesome pictures of killing can sway electorates and attract shoals of politicians ready to snap up easy votes. By providing the pictures, sometimes with lurid commentaries, anti-whaling campaigners have helped to move some governments from a purely pragmatic opposition to whaling to more extreme positions.

Mr Tony Baldry, the UK fisheries minister, is the latest to colour his views on the subject with liberal amounts of green. Yesterday he told the International Whaling Commission's 48th conference in Aberdeen that the UK would oppose the killing of whales even if their numbers recovered enough to allow sustainable harvesting. The UK believed, rather, that whales were an "international resource" to be exploited in non-lethal ways"; in other words, for a special form of tourism.

This might seem an attractive proposition: whales are biologically much closer to man than any other creatures of the sea, having, not only lungs and hot blood, but large brains and, probably, high intelligence. Nevertheless, saving the whales on such grounds is quite a different proposition from objecting to commercial exploitation on the grounds that they may become extinct. Aside from the logical difficulties of Mr Baldry's position, (should salmon, grouse and stags be exploited in "non-lethal ways"?), it is likely to be counter-productive. The IWC's ban on whaling since 1986 has been supported by well argued evidence. The numbers of larger whales, such as the blue whales and right whales, were then measured in hundreds. Their recovery will be slow since, unlike fish, which produce millions of eggs, whales produce only one or two calves a year with a long period of infancy.

The smaller minke whales, now being harvested by Japan and Norway, are more numerous however. Although counting methods are highly uncertain, the population in the North Atlantic might be of the order of 100,000, with perhaps 750,000 in the southern ocean. Against those figures, Norway's catch of 218 whales last year and Japan's total of 440, might appear modest.

Estimates vary as to how many minke whales can be killed while allowing the population to recover. Caution should prevail and the lowest number might still be zero. However, the IWC has to recognise that Norway is likely to continue to break its moratorium, while Japan shows no intention of abandoning the fiction that it needs to send factory ships to the Antarctic for "scientific purposes". By facing this reality, the IWC will have a better chance of controlling catches and ensuring that whales are no longer subjected to unnecessary cruelties, such as death by electric lance. The UK should concentrate on such issues rather than on popular sentiment.

Out of tune with the times

Sony's decision to invest $30m in promoting Michael Jackson's latest album has produced disappointing results, says **Alice Rawsthorn**

It is just a year since the executives of Sony, the global electronics and entertainment group, launched a $30m gamble on the future of one of their most valuable corporate assets.

The asset was Michael Jackson, now 37, the self-styled "King of Pop" whose 1982 release, *Thriller*, sold an unprecedented 45m copies. The gamble was the marketing campaign to launch *HIStory*, the singer's first album since his career had been thrown into question in 1993 by allegations of child sex abuse.

HIStory has sold 11m copies – impressive by the standards of most pop stars but well below previous sales by one of the best-selling pop singers of all time. The scandal thus appears to have had a negative impact on his career, though not a fatal one.

But the sales decline may illustrate more than one star's bruised reputation. It also reflects the fading fortunes of the US and UK singers and groups that have dominated the $40bn (£26bn) global music market since the mid-1950s.

Michael Jackson is perhaps the archetypal global superstar having harnessed plastic surgery to erase traces of his original age, gender and ethnicity. And even by the standards of other leading artists his commercial record is extraordinary.

He has been a performer since the age of five, when he and his brothers competed as the Jackson Five in talent contests in their hometown of Gary, Indiana. As a solo artist, he has sold over 100m albums for Sony – a feat matched by few acts other than the Beatles, Elton John and the Rolling Stones.

All record companies need superstars to strengthen their stance in negotiations with retailers and broadcasters. Other Sony artists have achieved global success – Bruce Springsteen and George Michael in the 1980s, Mariah Carey and Celine Dion in the 1990s. But their sales have not matched Michael Jackson's and his value to Sony was reflected in his contract with the company.

Most pop stars receive royalties of less than 15 per cent of their wholesale record sales after deductions for video production and marketing. As sales rise they can negotiate higher royalties – and a few stars who are successful globally, such as Madonna and George Michael, can demand 20 per cent royalties as well as contributions towards video and promotional costs.

But when Michael Jackson renegotiated his Sony contract in 1991, he secured an unprecedented 22 per cent royalties. This included $5m in advance and the company also agreed a $12m contribution to video costs for each of six albums. His success in the 1980s had played an important role in establishing Sony's music division as one of the "big five" groups which control over 80 per cent of the global market – the others are PolyGram, Warner, EMI and Bertelsmann.

At first, Sony's confidence seemed to pay off when *Dangerous*, his 1992 album, sold 23m copies. However, disaster struck in August 1993 when the Los Angeles police began investigating claims that the singer had sexually abused a 13-year-old boy. The charges were dropped, but only after he reportedly paid $20m to the boy's family.

The world tour to promote the album was cancelled and Michael Jackson checked into a clinic to be treated for painkiller addiction. He then began a global game of hide and seek with the press culminating in his secret marriage to Lisa-Marie Presley, daughter of his idol, Elvis.

The singer was already regarded as eccentric. His extensive plastic surgery, spending sprees in toy shops and friendship with Bubbles, a chimpanzee, prompted the British tabloids to dub him "Wacko Jacko".

But allegations of child sex abuse cast his behaviour in a different light and threatened to destroy his appeal to children – one of his greatest commercial strengths so far as Sony was concerned. Children are an important target in the entertainment market: their spending power – or, rather, their parents' – tends to be higher than that of the students who follow fashionable acts, such as Oasis, the Britpop band signed to Sony.

Similarly child-oriented stars are likely to clinch lucrative tour sponsorship and product endorsement deals, as Michael Jackson did with the PepsiCo drinks group. Hence a child abuse scandal imperilled one of his chief sources of income.

Sony was willing to gamble that his popularity would survive. The company thus invested $30m on a marketing campaign to launch *HIStory*, a double album combining a greatest hits package with new material.

The promotion included floating giant Michael Jackson statues on eight European rivers and a heavy investment in publicising the singles taken from the album – with a $7m contribution towards the cost of making a video to promote *Scream*, the first.

The company also subsidised sales of a cassette version of the second single to be released from the album, *You Are Not Alone*: it was sold in the US for 49 cents, against the standard $3.49 price of a compact disc single.

Although it became one of the best-selling Michael Jackson singles, with global sales of 2.4m, the deep discounting means Sony is unlikely to make a profit on it. Moreover the 1995 best-selling single, Coolio's *Gangsta's Paradise*, sold 2.5m in the US alone.

Sony was willing to swallow losses on the singles – singles rarely make money but can promote the success of an album. But the 11m sales of *HIStory* over the past year are below expectations. And while it has sold strongly in Asia, it performed less well in the US, where it attained sales of 1.9m by the end of 1995. This compares with the 7m copies of *Cracked Rear View* by Hootie & The Blowfish, the previously obscure Warner group.

Sony claims that sales to children have held up, possibly because their parents did not pass on details of the scandal. However it admits that Michael Jackson has lost popularity among the 15 to 25 age group. For example, when Jarvis Cocker of Pulp, the Britpop act, protested against Michael Jackson's "Christlike" performance at the Brit music awards in February, the gesture found widespread sympathy.

Sales of the album may also have been hampered by the singer's reluctance to conduct the usual round of media interviews after its launch, fearing questions about the 1993 scandal and his divorce from Lisa-Marie Presley after two years of marriage. The family of the allegedly abused boy recently issued a writ against him for remarks made during a television interview last June.

"Michael Jackson's down, but not out," says one US label head. "The allegations haven't destroyed his career but they have damaged it."

One consolation for Sony is that other 1980s superstars fared as badly in 1995 – notably Madonna, whose *Bedside Stories* album sold only 1.1m copies. And the company claims *HIStory* is "still in the first stages" and that sales will accelerate this autumn when he starts a world tour.

Previous tours by the singer have fuelled album sales but so far only nine dates have been announced, mostly in eastern Europe and north Africa. Michael Jackson will also perform in Asia but at present he has no plans for concerts in the mature music markets of western Europe and north America.

One problem in organising the tour was raising commercial sponsorship to offset the costs, as former sponsors, including PepsiCo, severed their association with the singer after the 1993 scandal. Sony says his managers are in talks over new deals but so far the only sponsor for the tour is Prince Alwaleed, the wealthy Saudi investor whom the singer has befriended.

In some respects it makes sense for the marketing effort to concentrate on less mature markets such as Asia and Latin America, since sales growth is so high in them. Music Business International, the industry magazine, predicts that north America's share of music sales will fall from 34 per cent to 28 per cent in 2001, while that of Asia (excluding Japan) will rise from 3 per cent to 12 per cent.

Other US stars have already successfully boosted domestic sales by nurturing emerging markets, notably Bon Jovi, PolyGram's rock group which tours relentlessly in Asia. However the profits on sales in emerging markets are often depressed by the intricacies of local distribution systems and the activities of pirates selling bootleg copies of albums.

There are also signs that Asian and Latin American consumers are losing their taste for global superstars. Musical taste has become increasingly nationalistic during the 1990s. The US charts are dominated by Coolio's rap and Hootie's South Carolina bar music; local talent is outselling US and UK artists in Asia and Latin America.

This change in taste is unlikely to affect the balance of power in the industry since the new stars are generally signed to the "big five" western labels. Hong Kong's Jacky Cheung is on PolyGram, for example, and China's Dadawa on Warner. And Sony has already found another crop of chart-toppers which it is now nurturing, including Tube, the Japanese band, and The Fugees, the US and Haitian hip-hop act.

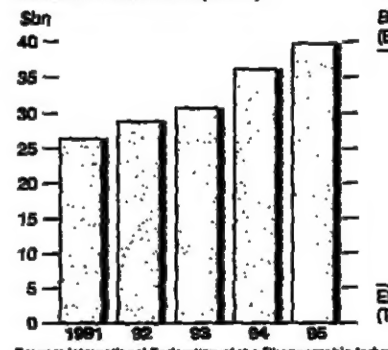
But the success of these new stars in regional markets does little to help established global superstars sustain their careers. While Sony is signing up new singers in the emerging markets of Asia, Africa and Latin America, Michael Jackson's attempts to restore his popularity look unlikely to succeed in an era when his brand of pop star is going out of style.

Michael Jackson's album sales*

Off The Wall	1979	11m
Thriller	1982	45m
Bad	1987	22m
Dangerous	1991	23m
HIStory	1995	11m

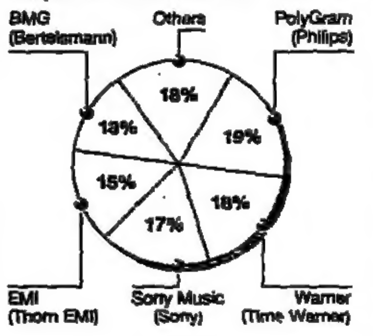
* All solo albums recorded for Sony Music
Source: Sony Music

Global music sales (Retail)



Source: International Federation of the Phonographic Industry

Corporate market share in 1995



Source: Industry estimates

· OBSERVER ·

Spanish practices

■ Spain's new Popular party government may be moving towards a more open economy, but it's not doing much for political tolerance. Staff changes at state organisms don't stop at the top jobs. In the RTVE broadcasting authority, for instance, they reach deep into the organisation.

Prime minister José María Aznar has evidently not forgiven an uncomfortable TV interview he had during the election campaign in February.

Parties then had trouble agreeing on an interviewer for the main candidates, but they finally settled on José Antonio Martínez Soler, a well-known presenter, who had just been sent to New York as Spanish state TV's US correspondent.

Martínez Soler, 49, may now well be kicking himself for a lapse in tact during the Aznar interview, when he referred to the Popular party's old guard as "Jurassic Park".

A former fellow of Harvard University's prestigious Nieman journalists' programme, he had also clashed with the previous Socialist administration. Before that, shortly after General Franco's death, as a young magazine editor, he was kidnapped, tortured and subjected to mock execution, after writing an article about the paramilitary Civil Guard. This time he has merely been sacked from his correspondent's job.

That's progress for you.

Small beer

■ Pure genius it wasn't. The Cern atom-smasher, the world's largest racetrack for sub-atomic particles, and Europe's main claim to fame in world-class big science, was recently halted for five days – by two empty beer bottles.

The accelerator, a 27km ring under the Franco-Swiss border, where sub-atomic particles are smashed together at close to the speed of light, began to fail for no apparent reason a week ago.

A team which entered the accelerator found the two bottles in a vacuum chamber. Small beer, you might think, but their presence will apperently cost 10 per cent of experimenting time in the next year.

And the beer in question? Heineken. A clear case of life imitating art; as its slogan has it, reaching the parts other beers cannot reach.

Too compatible

■ IBM has lost no time trumpeting the deal it's done to distribute StorageTek's big disk drives ("Announcing better-smarter-faster-cheaper ways to safely store all the information on the planet"). But its ebullience brings a wry smile to those who remember the ding-dong battle the two companies fought in the 1980s.

So fierce was the battle in the lucrative market for IBM-compatible disk drives for mainframe computers that Storage Technology (its formal name) ended up in chapter 11 in 1984. It made a successful comeback, but suffered lengthy delays in developing its new range of storage devices.

And now it seems IBM is to become StorageTek's main disk-drive distributor – a sign, to veteran watchers of Big Blue, that the company really has changed. In its new mood of come-all-ye generosity, anything seems possible – reselling computers from those other veterans of the plug-compatible wars, Amdahl and Fujitsu, perhaps?

Idiomatic view

■ Now the latest news on the surreptitious but seemingly unstoppable campaign to make German the third official language of the European Union, alongside English and French.

Monika Wulf-Mathies, EU commissioner for regional affairs in Brussels, revealed in testimony to the Bundestag last week that the European Commission has just sent out questionnaires to all central and eastern European countries wishing to join the EU in English, French and, ja, German.

Once the communist regimes in eastern Europe collapsed in 1989, Russian went the same way as the Red Army. German became more or less a second language in the Czech republic, Poland and Hungary.

So you'd have to be pretty naive to wager a bottle of schnapps on German *not* being an official language by the time the first group of central European countries join the EU, around 2002.

Cyberdons to arms

■ Ireland's wily literary scholars are finding the Internet is mightier than the pen in their battle to save one of the many houses lived in by James Joyce in Dublin.

Developers plan to demolish the house, in the suburb of Drumcondra, and replace it with apartments. The Drumcondra house is one of 17 homes the Joyce family lived in around Dublin, and is fulsomely described in Joyce's *A Portrait of the Artist as a Young Man*.

Since campaigners to save the house put the issue on the Internet, Dublin Corporation has been swamped by irate messages from Joyce scholars round the world. One US academic (quoted by the Irish Times) even said he was ready to "head over to Ireland to start a war" in order to save the house. Another Irish war, brilliant idea, exactly what it needs.

Financial Times

100 years ago

The Canadian Elections
The General Election yesterday, after one of the bitterest campaigns in the history of the Dominion, resulted in the defeat of the Government. This is due mainly to the remarkable change in the province of Quebec, which has returned 17 Conservatives and 47 Liberals, as compared with 31 Conservatives and 34 Liberals in the last Parliament. The results give the Liberals a clear majority of 36. Candidates elected include 83 Conservatives, 119 Liberals, two Patrons of Industry, four Independents and four McCarthyites.

50 years ago

Polish War Debt
The Polish-British financial agreement concerning the settlement of Polish war debts in Great Britain was signed at the Foreign Office yesterday. After the signing, the chairman of the National Bank of Poland, Mr. E. Drozniak, said: "My opinion is that this settlement is shaped in terms favourable to both sides. We have already started a discussion concerning a monetary and transport agreement, and I think that in the near future talks concerning a trade agreement should be started."

FINANCIAL TIMES
Tuesday June 25 1996

Israel lifts interest rate to combat 15% inflation

By Yaroslav Trofimov in Jerusalem

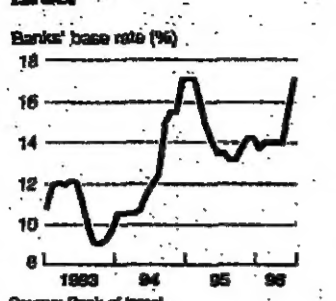
The Bank of Israel yesterday lifted the country's key lending rate by 1.5 percentage points, sending a strong message to the government of Mr Benjamin Netanyahu that it must quickly tackle economic problems and implement budget cuts.

The rate was raised to 17 per cent, its highest level for almost two years. The central bank said the increase was needed to curb the inflation rate, now 15 per cent and well above the government's target rate of 8-10 per cent.

"Real interest rates are relatively low, and are currently on a downward trend," the bank said. "The increase in interest is imperative in light of the economic indicators that point to an inflationary environment."

Mr Jacob Frenkel, the bank's governor, said the move was meant to give the government "breathing room" until budget cuts promised by the incoming government were implemented.

Israel



Source: Bank of Israel

While Israel's budget deficit, running at an estimated 3 per cent of gross domestic product, is moderate by international standards, economists say the figure is high because a large part of government spending is financed by transfers from other countries, mostly the US.

After yesterday's rate increase, Mr Netanyahu called a meeting with Mr Frenkel and Mr Dan Meridor, finance minister. A statement from the prime minister's office said it was decided that a formal proposal outlining the budget cuts would be presented soon.

"For Israel to become one of the leading economies of the world, it is necessary to cut government spending in light of the big deficit that has accumulated in the state budget," the statement added.

Israel's business leaders criticised the increase. They said a stronger shekel would stall the growth of the country's export-driven economy and worsen its gaping trade deficit. The Israeli currency rose yesterday to Shk3.231 against the US dollar from Shk3.266 on Friday.

Mr Dan Propper, president of the Manufacturers Association, said the interest hike "will bring the economy to a recession."

However, the Tel Aviv Stock Exchange's Mishtanim index of 100 top companies registered only a moderate drop on the news, falling by 0.68 per cent from 203.1 to 201.71.

Christopher picks up Mideast peace baton, Page 4
World stock markets, Page 38

Talks on nuclear test ban reach deadlock

By Frances Williams in Geneva

Talks aimed at concluding a comprehensive nuclear test ban treaty by Friday have run into trouble over the conditions under which the pact would come into force.

Britain, Russia, China and Pakistan have rejected moves that would enable the treaty to begin working even if one or more of eight key countries refused to join.

They are insisting instead that the treaty be ratified by all five declared nuclear weapons states – the US, Russia, Britain, France and China – as well as by India, Pakistan and Israel, the three "threshold" states capable of building nuclear weapons.

India has already indicated that it will not sign the treaty, which it says does not go far enough in calling for total nuclear disarmament. It is therefore possible that the treaty may never come into force. Pakistan has said it will not ratify the accord unless India does.

Most of the total of about 60 countries taking part in the United Nations talks are backing an unofficial "waiver" proposal by Mr Jaap Ramaker, the Dutch chairman, which he presented last Thursday.

His plan would have allowed states that had ratified the treaty to bring it into force by a two-thirds majority of those who had ratified after five years. Nations that objected could delay adherence to its provisions until their conditions, such as ratification by another country, were met.

However, the "waiver" proposal was rejected out of hand by Britain and Russia while China and Pakistan have since made clear their opposition.

Consequently Mr Ramaker's revised treaty draft, presented yesterday, retains the previous formula which requires all 37 countries with nuclear test monitoring stations to ratify. The 37 include the five nuclear powers and the three threshold states.

British officials said yesterday that there was "no give at all" in the UK position, and denied assertions by disarmament groups that Britain was deliberately placing the talks in jeopardy because it did not want the test ban to take effect. "The only point in having a treaty is if all eight are included", said one UK official, noting that other countries were already banned from testing by the Nuclear Non-Proliferation Treaty or regional disarmament pacts.

Mr Ramaker has not included India's call for a commitment to scrap all nuclear weapons within 10 years in his draft treaty. But he has conceded China's demand that a treaty review conference consider the case for "peaceful" nuclear explosions.

Deadline ticking away, Page 4

GM, Renault

Continued from Page 1

plant in eastern France. GM would sell those vehicles throughout Europe, also under the Opel/Vauxhall names. These larger vans will replace Renault's Master model, already built at Batilly, and will not be a joint development.

The two companies said yesterday that a letter of intent had already been signed and that a final agreement, setting out production sites, was expected to be in place before the end of the year.

The development of the new panel van will be undertaken primarily by Renault because of its long and unbroken commercial vehicles experience.

Both sides said an assessment of production arrangements was only just beginning. "Various alternatives are under discussion," GM said in Zurich.

Russian poll

Continued from Page 1

emphasising he would win the elections in a straight fight on a non-Communist platform.

In an attempt to win over some of Mr Yeltsin's supporters, Mr Zyuganov offered senior government jobs to Mr Yuri Luzhkov, Moscow's populist mayor, and Mr Murtaza Rakhimov, leader of the Bashkortostan republic.

Mr Luzhkov, who held talks with Mr Zyuganov yesterday, categorically refused to join any government of national unity led by the Communist leader.

Before the meeting, Mr Luzhkov warned that a Communist victory would inevitably spell a return to confrontation reminiscent of the cold war and to political repression.

Family values put Clintons back on moral high ground

By Patti Waldmeir in Nashville, Tennessee

Mrs Hillary Clinton stepped from the podium into the warm embrace of her husband, the president. The first couple stopped for a moment to gaze lovingly into one another's eyes.

The message was clear – forget all the murky charges of sexual, financial and legal misconduct swirling back in Washington.

The Clintons were in Nashville yesterday, addressing a conference on families and doing what they do best – bonding with the American people over an issue which touches every middle-class life, the strains between work and family. They were in their element.

Both the nation's first and second couple – vice-president Al Gore and his wife Tipper – addressed the fifth annual "family reunion" in Nashville, an event devoted to the problems of the American family. The two couples strode on to the stage together, like the handsome Baby Boomers that they are.

The audience was already on their side – a group of self-described family and child advocates – so the welcome was warm. But when Mrs Clinton stepped to the podium, the loud applause kept her silent until she finally insisted it stop.

"Shortly before I arrived, I had one of my conversations with Mrs Roosevelt," she began – a reference to the weekend furore provoked by a new book detailing her imaginary conversations with famous (dead) women. The crowd loved her for the self-deprecation.

She told jokes about her pregnancy, and affecting tales of how she balanced the demands of having a sick child (Chelsea, now 16) with the duties of being a trial lawyer back in Arkansas. The first lady ended her address with a call to all public figures to say nothing on television or radio "unless it is good for children", and the crowd loved that too.

Europeans might be mystified by the American obsession with talking about children – not their own children, but the institution of childhood – but middle-class voters love it. They loved it yesterday in Nashville, and the 150 centres around the country connected to the convention centre by satellite.

After 10 days of relentlessly bad news for the Clintons on the moral front – including the continuing allegations of sexual harassment against the president, the first lady's Whitewater troubles and the FBI files controversy – both obviously drew strength from the reception. "I think you can all tell that we're kind of into this," Mr Clinton said, as he announced proposals to give parents mandatory time off to attend school meetings and take their children to the dentist.

He held the gaze of every speaker, and praised them for their courage. Then he proposed to do what he could to ease their pain. It the perfect antidote to a week of Whitewater.

Clinton wins time, Page 5

THE LEX COLUMN

Speculative proposal

Even when the new currency is established, making European monetary union work is going to be no joke. Getting through the transitional period from 1999, when national currencies still exist but are "irrevocably fixed" against each other, could be even trickier. Understandably, after the searing experience of the exchange rate mechanism, the authorities are particularly worried that speculators could pull the new system apart. Nonetheless, the latest safety-first wheeze being cooked up in the European Monetary Institute – which would make all new contracts unenforceable if they do not reflect the official exchange rates – is wrong-headed. It needs to be rethought.

For a start, the plan is wrong in principle. Governments have no business interfering in contracts between willing buyers and sellers. But it is almost certainly unworkable as well. Attempts by governments to prevent buyers and sellers of any commodity getting together have rarely been particularly successful. In this case, if speculators really want to have a crack at derailing Emu, they can perfectly well do so from a jurisdiction which does not recognise European law.

In reality, the problem is likely to be unavoidable as long as the plans for the transitional period remain a fudge – there is supposed to be a single currency, but national currencies are to persist as part of it. This has a political benefit: it is designed to kid the German population that it is not really losing the D-Mark. But governments have to accept that it has a price as well. While national currencies remain, investors are bound to continue to gamble on their relative value.

FT-SE Eurotrack 200: 1720.1 (+2.6)

Dassault Aviation

Source: FT Extel

Morgan Stanley

Every well-dressed international investment bank currently wants to be seen around town this season with a new asset management team on its arm. Of course, this fashionable appendage does not just look good – it also helps mitigate the tiresome effect of volatile earnings on the share prices of investment banks. But Morgan Stanley's $743m acquisition, plus debt, of Van Kampen, the US mutual fund manager, looks like more than a whim of fashion.

The price is not low, but it is more or less the market rate, at 14 times after-tax earnings and 2 per cent of funds under management. It will be neutral for earnings this year, but this is a growth business and future prospects are good given the global shift towards personal savings and away from pay-as-you-go state pension systems. Morgan Stanley is well placed to benefit from this trend.

The deal fits well with Morgan Stanley's existing fund management business, which is mainly institutional. There is plenty of scope for additional leverage for its underwriting, dealing and institutional businesses: for example, Morgan Stanley has a strong capability in emerging markets, and an ability to place emerging market funds with retail investors will not only provide a potentially profitable business in its own right but should also help Morgan Stanley win mandates.

The only worry is that existing distributors of Van Kampen products, such as Merrill Lynch and Smith Barney, may be less enthusiastic about distributing the products of a keen rival like Morgan Stanley.

BTR

BTR is in a bind. The strategy set out by new man at the top Mr Ian Strachan – reshuffling the large and widely dispersed portfolio to concentrate on markets where BTR can command a dominant position – sounds sensible enough. BTR has plenty of good, well-run engineering businesses to provide an attractive core, and its investment programme should yield a surge in sales growth in 1997 and 1998. But the current level of capital expenditure looks unsustainable, given the need to meet a hefty dividend bill of £650m out of a shrinking cash flow.

The problem is likely to be compounded by BTR's weak share price, which means existing warrants may not be exercised. But in strategic terms this is irrelevant: using the proceeds from warrants to plug the dividend gap only exacerbates the underlying problem, since the exercise of warrants into shares both increases the size of the dividend bill and dilutes earnings per share.

The dividend was not covered by cash last year, and, if maintained, there is little prospect that it will be either this year or next. To sort the problem out once and for all, the best solution is a dividend cut. While the City would not welcome this it would be easier for Mr Strachan to bite the bullet while he is still new. Coupled with a more detailed explanation of just how he plans to restructure the portfolio, it would certainly be tolerated. This may mean selling off good businesses in order to make the necessary investment in even better ones.

French aerospace

Dassault Aviation may not have wanted to marry state-owned Aérospatiale, but arm-twisting from the French state seems to have done the trick. Not only was the government always in a strong position to dictate terms since it is the main buyer of Dassault's fighter jets; Mr Serge Dassault, the company's chairman, could not be too intransigent given that Belgium wishes to extradite him in connection with alleged bribery charges.

Despite Mr Dassault's weak negotiating hand, the stock market believes he has secured a good financial deal. Following a report yesterday in Les Echos, the French financial newspaper, Dassault Aviation's shares shot up so much they were suspended; the stock had already more than doubled since the start of the year.

According to Les Échos, the Dassault family will receive a 27 per cent stake in the combined aerospace group. Given that the family owns half the company, this implies Dassault Aviation as a whole will end up with a 54 per cent stake. Moreover, Dassault Systèmes, a computer business, will not be included in the merger. If value were determined by crude size, Dassault would indeed have secured a good deal: more than half the company for less than a quarter of the turnover. Looking at profits, though, gives a completely different picture: Dassault was profitable last year, while Aérospatiale lost FFr981m ($188.6m). Mr Dassault's best hopes are that Aérospatiale will clear up some of its red ink by pressing ahead with cost-cutting – and that the Dassault deal will be the first step in a broader restructuring of the European aerospace industry.

Additional Lex comment on the Woolwich, Page 22

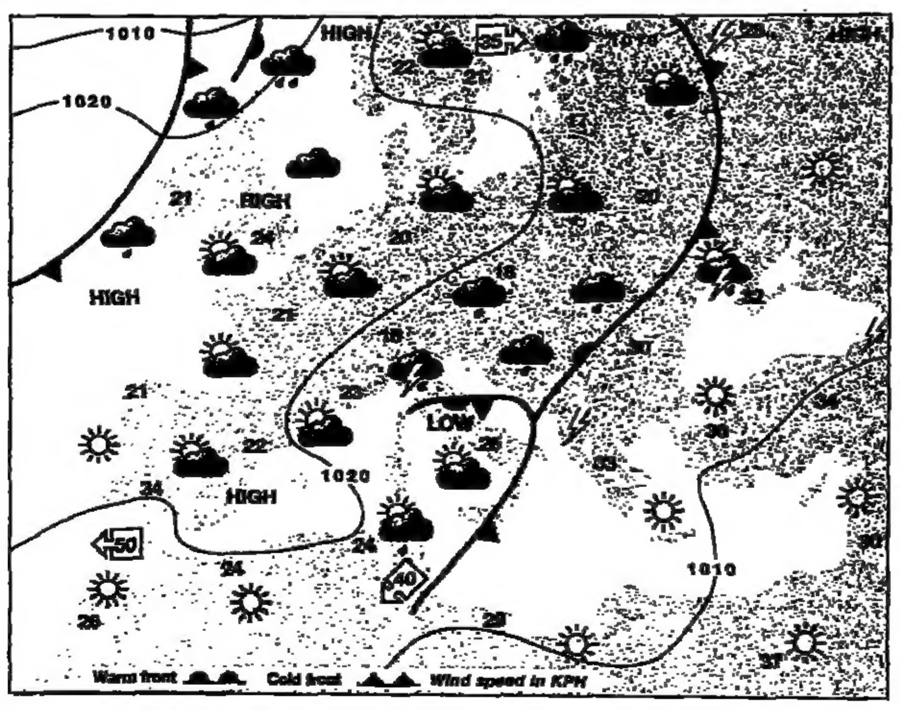
FT WEATHER GUIDE

Europe today

Sunny intervals will bring a warming trend to the Benelux. Cloud and patchy drizzle mixed with rain will linger from Switzerland to Hungary. France will have sunny periods and afternoon showers may develop over the French Alps. Northern Italy and parts of the Balkans will have thunder storms but southern regions will remain dry with plenty of sun. Greece, Turkey and Cyprus will be dry, warm and sunny. Sunny periods over much of the UK will boost temperatures to between 20C and 24C but the coasts will be cooler. A frontal system will reach Ireland and Scotland around noon, preceded by thickening cloud and outbreaks of rain.

Five-day forecast

A weakening cold front will produce showers over England tomorrow but clearing will spread east during the afternoon. A slight warming trend will continue over the western part of the continent but it will become unsettled and cooler at the end of the week. Colder air will meet warm air over south-eastern Europe, resulting in showers and thunder storms. Italy will become clearer later in the week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	40
Accra	thund	30
Algiers	fair	26
Amsterdam	fair	19
Athens	sun	32
Atlanta	fair	35
B. Aires	sun	12
B.ham	fair	23
Bangkok	thund	36
Barcelona	fair	22
Beijing	sun	32
Belfast	cloudy	23
Belgrade	shower	20
Berlin	cloudy	20
Bermuda	fair	27
Bogota	thund	19
Bombay	shower	31
Brussels	fair	19
Budapest	rain	18
C.hagen	fair	20
Cairo	sun	37
Cape Town	fair	17
Caracas	fair	31
Cardiff	sun	21
Casablanca	fair	24
Chicago	sun	27
Cologne	fair	20
Dakar	fair	32
Dallas	fair	34
Delhi	rain	30
Dubai	sun	39
Dublin	cloudy	22
Dubrovnik	fair	24
Edinburgh	sun	24
Faro	sun	29
Frankfurt	fair	21
Geneva	drzzl	19
Gibraltar	fair	24
Glasgow	fair	22
Hamburg	cloudy	20
Helsinki	cloudy	17
Hong Kong	rain	27
Honolulu	fair	31
Istanbul	sun	30
Jakarta	fair	32
Jersey	fair	18
Karachi	fair	34
Kuwait	sun	42
L. Angeles	fair	22
Las Palmas	fair	26
Lima	drzzl	17
Lisbon	sun	29
London	fair	24
Lux.bourg	fair	18
Lyon	cloudy	20
Madeira	shower	23
Madrid	fair	28
Majorca	fair	25
Malta	fair	28
Manchester	fair	22
Manila	thund	33
Melbourne	shower	16
Mexico City	cloudy	22
Miami	thund	33
Milan	thund	23
Montreal	fair	21
Moscow	thund	23
Munich	cloudy	18
Nairobi	fair	23
Naples	fair	25
Nassau	fair	31
New York	fair	31
Nice	cloudy	23
Nicosia	sun	35
Oslo	fair	22
Paris	fair	21
Perth	shower	18
Prague	cloudy	18
Rangoon	rain	31
Reykjavik	rain	12
Rio	cloudy	26
Rome	thund	24
S. Frsco	fair	18
Seoul	fair	30
Singapore	fair	32
Stockholm	fair	21
Strasbourg	cloudy	19
Sydney	fair	18
Tangier	sun	27
Tel Aviv	sun	34
Tokyo	cloudy	28
Toronto	fair	23
Vancouver	cloudy	18
Venice	thund	20
Vienna	drzzl	17
Warsaw	shower	17
Washington	sun	33
Wellington	rain	12
Winnipeg	shower	19
Zurich	drzzl	16